



City of Ekurhuleni  
Annual Financial Statements  
for the year ended 30 June 2019

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## General Information

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<b>Legal form of entity</b>	City
<b>Legislation governing the entity's operations</b>	Municipal Finance Management Act (Act No. 56 of 2003)
<b>Mayoral Committee</b> Executive Mayor	Clr M Masina
Speaker	Clr P Khumalo
Chief Whip	Chief Whip: Clr J Dlabathi
Members of Mayoral Committee	MMC: Finance and Economic Development: Clr D Xhakaza MMC: Health & Social Development : Clr N Nkozi MMC: Human Settlement: Clr L Mpya MMC: Environmental and Waste Management Services: Clr K Mabaso MMC: City Planning: Clr N Shongwe MMC: Corporate and Shared Services: Clr D Mlambo MMC: Water, Sanitation and Energy: Clr T Nketle MMC: Community Safety: Clr F Mmoko MMC: Infrastructure Services: Clr M Madihlaba MMC: Transport Planning: Clr P Nkunjana
<b>Grading of local authority</b>	The City is a category A grade 6 local authority in terms of item 4 of the Government Notice R1227 of 18 December 2007 published in terms of the Remuneration of Public Office Bearers act, 1998.
<b>City Manager</b>	Dr. I Mashazi 011 999 0760 imogen.mashazi@ekurhuleni.gov.za
<b>Group Chief Financial Officer (GCFO)</b>	Mr. K Lerutla 011 999 1310 kagiso.lerutla@ekurhuleni.gov.za
<b>Registered office</b>	Corner of Rose and Cross Streets Germiston 1400
<b>Business address</b>	Corner of Rose and Cross Streets Germiston 1400
<b>Postal address</b>	Private Bag X69 Germiston 1400
<b>Primary banker</b>	Nedbank
<b>Auditors</b>	Auditor-General of South Africa

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Accounting Officer's Responsibilities and Approval

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the City as at 30 June 2019 and the results of its operations and cash flows for the year then ended.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the City and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the City and all employees are required to maintain the highest ethical standards in ensuring the City's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the City is on identifying, assessing, managing and monitoring all known forms of risk across the City. While operating risk cannot be fully eliminated, the City endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute assurance against material misstatement or deficit.

The accounting officer has reviewed the City's cash flow forecast for the year to 30 June 2020 and, in light of this review and the current financial position, she satisfied that the City has, or has access to, adequate resources to continue in operational existence for the foreseeable future.

The accounting officer is responsible for the financial affairs of the City and she is assisted by the City's senior management team.

The annual financial statements set out on pages 4 to 81 which have been prepared on the going concern basis, were approved and signed by the accounting officer on 31 August 2019.

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**Accounting Officer**  
**Dr. I Mashazi**

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**Group Chief Financial Officer**  
**Mr. K Lerutla**

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Statement of Financial Position as at 30 June 2019

Figures in Rand	Note(s)	2019	2018
<b>Assets</b>			
<b>Non-Current Assets</b>			
Investment property	3	504,387,320	498,509,708
Property, plant and equipment	4	55,234,814,415	52,176,569,959
Intangible assets	5	846,255,508	697,899,996
Heritage assets	6	69,033,511	69,033,511
Investments in controlled entities	7	106	106
Other investments	8	1,915,108,684	1,625,681,259
Long-term receivables	9	3,329,215	3,317,824
		<b>58,572,928,759</b>	<b>55,071,012,363</b>
<b>Current Assets</b>			
Inventories	10	1,330,427,952	1,021,377,614
Other investments	8	174,554,132	547,105,419
Receivables from exchange transactions	11&13	6,656,114,303	5,888,299,355
Receivables from non-exchange transactions	12&13	743,195,363	856,698,707
Cash and cash equivalents	14	3,430,881,905	3,527,793,795
		<b>12,335,173,655</b>	<b>11,841,274,890</b>
<b>Total Assets</b>		<b>70,908,102,414</b>	<b>66,912,287,253</b>
<b>Liabilities</b>			
<b>Non-Current Liabilities</b>			
Long term liabilities	15	8,124,203,045	5,497,508,614
Retirement benefit obligation	16	2,058,871,581	1,954,081,581
Provisions	17	885,299,632	846,307,294
		<b>11,068,374,258</b>	<b>8,297,897,489</b>
<b>Current Liabilities</b>			
Short term portion of long term liabilities	15	448,592,208	502,569,199
Trade and other payables from exchange transactions	18	7,615,869,595	7,059,093,453
Consumer deposits	19	916,990,548	866,331,112
Unspent conditional grants and receipts	20	959,851,222	577,020,651
Provisions	17	572,902,650	593,887,616
		<b>10,514,206,223</b>	<b>9,598,902,031</b>
<b>Total Liabilities</b>		<b>21,582,580,481</b>	<b>17,896,799,520</b>
<b>Net Assets</b>		<b>49,325,521,933</b>	<b>49,015,487,733</b>
Accumulated surplus		49,325,521,933	49,015,487,733

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	24	21,153,924,617	18,930,199,028
Rental of facilities and equipment	25	76,002,723	73,356,530
Interest earned on outstanding debtors		393,388,972	279,018,363
Income from agency services		305,156,458	293,198,719
Licences and permits		43,989,029	54,880,804
Other income	28	235,914,589	331,051,726
Interest revenue	27	393,246,152	613,811,427
<b>Total revenue from exchange transactions</b>		<b>22,601,622,540</b>	<b>20,575,516,597</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	23	5,395,430,732	5,200,065,019
Property rates - penalties and collection charges	23	83,532,438	57,700,398
<b>Transfer revenue</b>			
Government grants & subsidies	26	7,724,271,767	7,262,341,924
Public contributions and donations		29,628,665	593,441,274
Fines		348,667,339	334,253,645
<b>Total revenue from non-exchange transactions</b>		<b>13,581,530,941</b>	<b>13,447,802,260</b>
<b>Total revenue</b>	22	<b>36,183,153,481</b>	<b>34,023,318,857</b>
<b>Expenditure</b>			
Employee related costs	29	(8,119,521,321)	(7,233,916,439)
Remuneration of councillors	30	(137,935,967)	(132,699,899)
Depreciation and amortisation	31	(2,402,237,236)	(2,234,123,551)
Impairment and derecognition loss	32	(74,331,543)	(305,825,889)
Finance costs	33	(891,518,673)	(921,399,008)
Debt impairment	34	(2,524,365,481)	(1,464,826,053)
Collection costs		(127,898,248)	(197,291,621)
Bulk purchases	35	(14,125,666,405)	(12,942,284,399)
Contracted services	37	(2,469,896,900)	(1,345,754,998)
Grants and subsidies paid	38	(1,808,075,875)	(1,726,401,174)
Loss on disposal of capital assets		(14,596,043)	(3,523,123)
General expenses	39	(3,177,075,589)	(4,190,966,106)
<b>Total expenditure</b>		<b>(35,873,119,281)</b>	<b>(32,699,012,260)</b>
<b>Surplus for the year</b>		<b>310,034,200</b>	<b>1,324,306,597</b>

\* See Note 55

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	47,582,489,082	47,582,489,082
Prior period error	108,692,054	108,692,054
<b>Balance at 01 July 2017</b>	<b>47,691,181,136</b>	<b>47,691,181,136</b>
Changes in net assets		
Surplus for the year	1,324,306,597	1,324,306,597
Total changes	1,324,306,597	1,324,306,597
<b>Balance at 01 July 2018</b>	<b>49,015,487,733</b>	<b>49,015,487,733</b>
Changes in net assets		
Surplus for the year	310,034,200	310,034,200
Total changes	310,034,200	310,034,200
<b>Balance at 30 June 2019</b>	<b>49,325,521,933</b>	<b>49,325,521,933</b>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Cash Flow Statement

Figures in Rand	Note(s)	2019	2018
<b>Cash flows from operating activities</b>			
<b>Receipts on:</b>			
Property rates		4,253,315,484	4,878,057,692
Income from rendering of services		19,087,391,874	17,341,269,928
Grants - operational		6,039,893,084	5,724,671,011
Grants - capital		2,067,209,453	2,001,282,667
Interest income		786,635,124	609,502,980
Other receipts		1,152,862,147	1,136,597,503
		<u>33,387,307,166</u>	<u>31,691,381,781</u>
<b>Payments to:</b>			
Employees		(8,428,033,593)	(7,941,216,322)
Suppliers		(19,524,913,090)	(18,326,603,173)
Finance costs		(616,152,368)	(658,619,156)
Other payments		(1,585,356,287)	(1,739,418,899)
		<u>(30,154,455,338)</u>	<u>(28,665,857,550)</u>
<b>Net cash flows from operating activities</b>	40	<b><u>3,232,851,828</u></b>	<b><u>3,025,524,231</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment (PPE)	4	(5,713,632,916)	(5,257,397,431)
Purchase of investment property	3	(13,563,059)	(40,779,611)
Purchase of intangible assets	5	(258,397,644)	(335,563,630)
Decrease/(Increase) in investments		83,123,862	(601,769,541)
Decrease in long term receivables		(11,391)	(193,444)
<b>Net cash flows from investing activities</b>		<b><u>(5,902,481,148)</u></b>	<b><u>(6,235,703,657)</u></b>
<b>Cash flows from financing activities</b>			
Long-term liabilities raised		3,000,000,000	1,300,000,000
Repayment of long term liabilities		(427,282,560)	(371,980,325)
<b>Net cash flows from financing activities</b>		<b><u>2,572,717,440</u></b>	<b><u>928,019,675</u></b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b><u>(96,911,880)</u></b>	<b><u>(2,282,159,751)</u></b>
Cash and cash equivalents at the beginning of the year		3,527,793,785	5,809,953,546
<b>Cash and cash equivalents at the end of the year</b>	14	<b><u>3,430,881,905</u></b>	<b><u>3,527,793,795</u></b>



# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	21,576,154,070	135,953,431	21,712,107,501	21,153,924,617	(558,182,884)	Note 54
Rental of facilities and equipment	83,191,459	-	83,191,459	76,002,723	(7,188,736)	Note 54
Interest received (trading)	470,282,647	-	470,282,647	393,388,972	(76,893,675)	Note 54
Agency services	338,744,807	-	338,744,807	305,156,458	(33,588,349)	Note 54
Licences and permits	51,508,167	-	51,508,167	43,989,029	(7,519,138)	Note 54
Other income - (rollup)	133,152,709	314,498,366	447,651,075	235,914,589	(211,736,486)	Note 54
Interest received - investment	413,427,825	-	413,427,825	393,246,152	(20,181,673)	Note 54
<b>Total revenue from exchange transactions</b>	<b>23,066,461,684</b>	<b>450,451,797</b>	<b>23,516,913,481</b>	<b>22,601,622,540</b>	<b>(915,290,941)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	5,615,664,764	16,623,548	5,632,288,312	5,395,430,732	(236,857,580)	Note 54
Property rates - penalties imposed	52,763,928	-	52,763,928	83,532,438	30,768,510	Note 54
<b>Transfer revenue</b>						
Government grants & subsidies	8,119,813,515	313,625,389	8,433,438,904	7,724,271,767	(709,167,137)	Note 54
Public contributions and donations	-	-	-	29,628,665	29,628,665	Note 54
Fines, Penalties and Forfeits	337,851,387	100,000,000	437,851,387	348,667,339	(89,184,048)	Note 54
<b>Total revenue from non-exchange transactions</b>	<b>14,126,093,594</b>	<b>430,248,937</b>	<b>14,556,342,531</b>	<b>13,581,530,941</b>	<b>(974,811,590)</b>	
<b>Total revenue</b>	<b>37,192,555,278</b>	<b>880,700,734</b>	<b>38,073,256,012</b>	<b>36,183,153,481</b>	<b>(1,890,102,531)</b>	
<b>Expenditure</b>						
Personnel	(8,549,676,103)	121,507,332	(8,428,168,771)	(8,119,521,321)	308,647,450	Note 54
Remuneration of councillors	(151,061,797)	-	(151,061,797)	(137,935,967)	13,125,830	Note 54
Depreciation and amortisation	(2,306,342,045)	100,000,000	(2,206,342,045)	(2,402,237,236)	(195,895,191)	Note 54
Impairment loss/ Reversal of impairments	-	-	-	(74,331,543)	(74,331,543)	Note 54
Finance costs	(930,471,369)	170,609,855	(759,861,514)	(891,518,673)	(131,657,159)	Note 54
Debt Impairment	(1,445,795,514)	(50,000,000)	(1,495,795,514)	(2,524,365,481)	(1,028,569,967)	Note 54
Collection costs	(144,716,998)	(15,089,119)	(159,806,117)	(127,898,248)	31,907,869	Note 54
Bulk purchases	(14,245,904,914)	(100,288,379)	(14,346,193,293)	(14,125,666,405)	220,526,888	Note 54
Contracted Services	(2,213,210,670)	(304,271,961)	(2,517,482,631)	(2,469,896,900)	47,585,731	Note 54
Transfers and Subsidies	(1,821,652,909)	(198,300,189)	(2,019,953,098)	(1,808,075,875)	211,877,223	Note 54
Loss on disposal of assets	(14,578,401)	-	(14,578,401)	(14,596,043)	(17,642)	
General Expenses	(3,167,389,118)	(612,222,949)	(3,779,612,067)	(3,177,075,589)	602,536,478	Note 54
<b>Total expenditure</b>	<b>(34,990,799,838)</b>	<b>(888,055,410)</b>	<b>(35,878,855,248)</b>	<b>(35,873,119,281)</b>	<b>5,735,967</b>	
<b>Surplus before taxation</b>	<b>2,201,755,440</b>	<b>(7,354,676)</b>	<b>2,194,400,764</b>	<b>310,034,200</b>	<b>(1,884,366,564)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>2,201,755,440</b>	<b>(7,354,676)</b>	<b>2,194,400,764</b>	<b>310,034,200</b>	<b>(1,884,366,564)</b>	

The reasons for the difference between budget and actuals, refer to note 54.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
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# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Appropriation Statement

Figures in Rand

							Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome	
(Appropriation Statement)											
Figures in Rand											
	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2019											
Financial Performance											
Property rates	5,668,428,692	16,623,548	5,685,052,240	-		5,685,052,240	5,478,963,170		(206,089,070)	96 %	97 %
Service charges	21,576,154,070	135,953,431	21,712,107,501	-		21,712,107,501	21,153,924,617		(558,182,884)	97 %	98 %
Investment revenue	413,427,825	-	413,427,825	-		413,427,825	393,246,152		(20,181,673)	95 %	95 %
Transfers recognised - operational	5,918,144,940	320,980,065	6,239,125,005	-		6,239,125,005	5,657,062,313		(582,062,692)	91 %	96 %
Other own revenue	1,414,731,176	414,498,366	1,829,229,542	-		1,829,229,542	1,432,747,776		(396,481,766)	78 %	101 %
Total revenue (excluding capital transfers and contributions)	34,990,886,703	888,055,410	35,878,942,113	-		35,878,942,113	34,115,944,028		(1,762,998,085)	95 %	97 %
Employee costs	(8,549,676,103)	133,509,201	(8,416,166,902)	-	(12,001,869)	(8,428,168,771)	(8,119,521,321)	-	308,647,450	96 %	95 %
Remuneration of councillors	(151,061,797)	-	(151,061,797)	-	-	(151,061,797)	(137,935,967)	-	13,125,830	91 %	91 %
Debt impairment	(1,445,795,514)	(50,000,000)	(1,495,795,514)			(1,495,795,514)	(2,524,365,481)	-	(1,028,569,967)	169 %	175 %
Depreciation and asset impairment	(2,306,342,045)	100,000,000	(2,206,342,045)			(2,206,342,045)	(2,476,568,779)	-	(270,226,734)	112 %	107 %
Finance charges	(930,471,369)	170,609,855	(759,861,514)	-	-	(759,861,514)	(891,518,673)	-	(131,657,159)	117 %	96 %
Materials and bulk purchases	(14,245,904,914)	(100,288,379)	(14,346,193,293)	-	-	(14,346,193,293)	(14,125,666,405)	-	220,526,888	98 %	99 %
Transfers and grants	(1,821,652,909)	(194,011,229)	(2,015,664,138)	-	(4,288,960)	(2,019,953,098)	(1,808,075,875)	-	211,877,223	90 %	99 %
Other expenditure	(5,539,895,187)	(947,874,858)	(6,487,770,045)	-	16,290,829	(6,471,479,216)	(5,819,095,445)	-	652,383,771	90 %	105 %
Total expenditure	(34,990,799,838)	(888,055,410)	(35,878,855,248)	-	-	(35,878,855,248)	(35,902,747,946)	-	(23,892,698)	100 %	103 %
Surplus/(Deficit)	86,865	-	86,865	-		86,865	(1,786,803,918)		(1,786,890,783); 056,989)%; 056,989)%;		

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	2,201,668,575	(7,354,676)	2,194,313,899	-		2,194,313,899	2,067,209,453		(127,104,446)	94 %	94 %
Contributions recognised - capital and contributed assets	-	-	-	-		-	29,628,665		29,628,665	- %	- %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>2,201,755,440</b>	<b>(7,354,676)</b>	<b>2,194,400,764</b>	<b>-</b>		<b>2,194,400,764</b>	<b>310,034,200</b>		<b>(1,884,366,564)</b>	<b>14 %</b>	<b>14 %</b>
<b>Surplus/(Deficit) for the year</b>	<b>2,201,755,440</b>	<b>(7,354,676)</b>	<b>2,194,400,764</b>	<b>-</b>		<b>2,194,400,764</b>	<b>310,034,200</b>		<b>(1,884,366,564)</b>	<b>14 %</b>	<b>14 %</b>
<b>Capital expenditure and funds sources</b>											
Total capital expenditure	6,768,709,000	(424,518,000)	6,344,191,000	-		6,344,191,000	5,806,911,000		(537,280,000)	92 %	86 %
<b>Sources of capital funds</b>											
Transfers recognised - capital	2,201,669,000	(7,355,000)	2,194,314,000	-		2,194,314,000	2,020,855,000		(173,459,000)	92 %	92 %
Borrowing	3,591,244,000	(437,346,000)	3,153,898,000	-		3,153,898,000	2,888,886,000		(265,012,000)	92 %	80 %
Internally generated funds	975,796,000	20,183,000	995,979,000	-		995,979,000	897,170,000		(98,809,000)	90 %	92 %
<b>Total sources of capital funds</b>	<b>6,768,709,000</b>	<b>(424,518,000)</b>	<b>6,344,191,000</b>	<b>-</b>		<b>6,344,191,000</b>	<b>5,806,911,000</b>		<b>(537,280,000)</b>	<b>92 %</b>	<b>86 %</b>
<b>Cash flows</b>											
Net cash from (used) operating	6,700,603,000	1,690,192,000	8,390,795,000	-		8,390,795,000	3,339,855,912		(5,050,939,088)	40 %	50 %
Net cash from (used) investing	(6,542,143,000)	-	(6,542,143,000)	-		(6,542,143,000)	(6,060,144,678)		481,998,322	93 %	93 %
Net cash from (used) financing	3,425,791,000	(5,994,949,000)	(2,569,158,000)	-		(2,569,158,000)	2,623,376,876		5,192,534,876	(102)%	77 %
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>3,584,251,000</b>	<b>(4,304,757,000)</b>	<b>(720,506,000)</b>	<b>-</b>		<b>(720,506,000)</b>	<b>(96,911,890)</b>		<b>623,594,110</b>	<b>13 %</b>	<b>(3)%</b>
Cash and cash equivalents at the beginning of the year	5,809,954,000	(2,151,668,000)	3,658,286,000	-		3,658,286,000	3,527,793,795		(130,492,205)	96 %	61 %
<b>Cash and cash equivalents at year end</b>	<b>9,394,205,000</b>	<b>(6,456,425,000)</b>	<b>2,937,780,000</b>	<b>-</b>		<b>2,937,780,000</b>	<b>3,430,881,905</b>		<b>(493,101,905)</b>	<b>117 %</b>	<b>37 %</b>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

#### Basis of Preparation

The annual financial statements were prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The annual financial statements were prepared on the accrual basis of accounting and incorporate the historical cost conventions as the basis of measurement, except where otherwise specified.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5 (GRAP Reporting Framework).

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

The principal accounting policies, applied in the preparation of the annual financial statements, are set out below. These accounting policies are consistent with those applied in the preparation of the prior year annual financial statements, unless, otherwise specified. Details of any changes in the accounting policies are provided in the note "Changes in accounting policy."

The amounts presented in the financial statements are rounded to the nearest rand.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.1 Significant judgements and sources of estimation uncertainty

In the process of applying the City's accounting policies, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the annual financial statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviews on an ongoing basis. Revisions to estimates are recognised prospectively:

#### • Going Concern

Management considers key financial metrics and approved medium-term budgets, together with the City's dependency on the grants from national and provincial government, to conclude that the going concern assumptions used in the compilation of its annual financial statements, is appropriate.

#### • Operating lease commitments - City as lessor or leases

Leases where risks and rewards of ownership are not transferred to the lessee are classified as operating leases. Payments received or paid under operating leases are recognised in statement of financial performance on a straight-line basis over the period of the lease.

#### • Pension and other post – employment benefits

The cost of defined-benefit pension plans and other employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Further assumptions and estimates are disclosed in **note 15** to the financial statements.

#### • Cash-generating assets

The City is not a profit-oriented entity as its primary objective is service delivery. Tariffs and charges are cost-reflective to ensure continued financial sustainability. No profit element is included in the determination of a tariff.

As such, management has determined that the city does not control assets that meet the definition of cash-generating assets, and that the GRAP standard for the impairment of non-cash-generating assets will apply to all assets of the city.

#### • Impairment of receivables

The calculation in respect of the impairment of receivables is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments. The City first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Accordingly, management believes no further credit provisions are required in excess of the present allowance for doubtful debts.

#### • Impairment of property, plant and equipment

The calculation in respect of the impairment of property, plant and equipment is based on an assessment of the extent to which the recoverable amount of the asset has declined below the carrying amount. This was performed across all classes of property, plant and equipment.

#### • Residual value of property, plant and equipment

Management has determined that none of its infrastructure assets have any active market value, and the value of the amount at the end of their useful lives would therefore be insignificant.

#### • Useful lives of property, plant and equipment and investment property held at cost

The useful lives of assets are based on management's estimates. Management considers the impact of technology, service requirements and required return on assets to determine the optimum useful-life expectation, where appropriate. The estimated residual values of assets are also based on management judgements on whether the assets will be sold or used to the end of their useful lives, and what their condition will be at that time.

#### • Significant delays in assets under construction

The City regards delays in assets under construction of more than three years as significant. Further disclosures are made in **notes 2 to 5** to the financial statements.

#### • Investment accounted using the cost model

The City has accounted for the investment in Rand airport using the cost model, the city has 20% shareholding. The reason for accounting this under the cost model is due to the fact the city has not exercised significant control, does not participate in operations or management decision nor serve on the board of directors of the entity.

#### • Provisions, contingent liabilities and contingent assets

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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Management's judgement is required when recognising and measuring provisions, as well as when measuring contingent liabilities and contingent assets. Provisions are discounted where the effect of discounting is material using cost of capital.

### • Traffic Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. Assets arising from fines are measured at the best estimate of the inflow of resources to the City.

### • Budget information

A difference of 8% or more between budget and actual amounts is regarded as material. All material differences are explained in the notes to the annual financial statements.

### • Material losses

Material losses are losses that occur due to factors other than normal production and utilisation, and are regarded as material if their omission or misstatement will affect the decisions made by users of the information. The losses disclosed include that of technical losses and non-technical losses related to water and electricity.

Losses that occur due to normal production and utilisation are classified as production costs and factored into the City's tariffs. They, therefore, do not constitute material losses. If actual production and utilisation losses exceed the normal budgeted production and utilisation losses factored into the tariff, this difference is considered material losses.

### • Service charges

Service charges relating to electricity, water and sanitation are based on consumption. Waste removal is based on the size of the bin and the number of times it is collected. Meters are read and billed on a monthly basis and revenue is recognised when invoiced. Estimates of consumption are made monthly when meter readings have not been performed. The estimates of consumption are recognised as revenue when invoiced. Adjustments to estimates of consumption are made in the invoicing period when meters have been read. These adjustments are recognised as revenue in the invoicing period. Waste removal services are billed on a monthly basis.

### Services provided on a prepaid basis

Various services are provided on a prepaid basis in which case no formal billing takes place and revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date.

## 1.2 Presentation currency

This annual financial statements are presented in South African Rand, which is the functional currency of the City.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.3 Investment property

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the enterprise, and the cost or fair value of the investment property can be measured reliably.

At initial recognition, the City measures investment property at cost including transaction costs, once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

#### Cost model

Investment property is subsequently measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. The City depreciates separately each part of an item of investment property that has a cost that is significant in relation to the total cost of the item. A significant part of an item of investment property may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge. Costs of replacing parts are capitalised and the existing parts being replaced are derecognised. The annual depreciation rates are based on the following estimated average asset lives:

Item	Useful life
Property - land	Indefinite
Property - buildings	14 - 80 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the statement of financial performance in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in the statement of financial performance when the compensation becomes receivable.



# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the City; and
- the cost or the fair value of the item can be measured reliably.

Property, plant and equipment is initially measured at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. Cost also includes initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located. Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Servitudes that are acquired with the relevant infrastructure items are capitalised with the relating infrastructure asset when it is an integral part of the asset.

Assets under construction represents capital expenditure incurred on projects not yet completed nor ready for use at period end. Assets under construction are carried at cost.

Property, plant and equipment are subsequently measured at cost, less accumulated depreciation and accumulated impairment losses. Where property, plant and equipment are acquired through non-exchange transactions, the cost is deemed to be the item's fair value on the date of acquisition. The cost of an item of property, plant and equipment acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets is measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Subsequent cost is capitalised when the recognition and measurement criteria of an asset are met.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

The City maintains and acquires assets to provide a social service to the community. The useful lives and economic lives of these assets are equal and consequently no residual values are determined.

The City depreciates separately each part of an item of property, plant and equipment that has a cost that is significant in relation to the total cost of the item. A significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge. Costs of replacing parts are capitalised and the existing parts being replaced are derecognised. Depreciation is calculated at cost, using the straight-line method, over the estimated useful lives of the assets. Depreciation starts when the asset is available for use. Assets under construction are not depreciated.

The depreciation rates are based on the following estimated useful lives:

<b>Item</b>	<b>Useful life</b>
Land	Indefinite
<b>Infrastructure</b>	
Roads and stormwater	2 - 100 years
Pedestrian bridges	10 - 60 years
Electricity	3 - 100 years
Water	3 - 100 years
Sewer	3 - 100 years
Housing	80 years
Solid Waste	5 - 100 years
ICT	5 - 50 years
Waste water purification works	2 - 82 years
<b>Community</b>	
Buildings	14 - 80 years
Recreational facilities	10 - 80 years
Security	5 - 15 years
Landfill sites	10 - 80 years
<b>Other property, plant and equipment</b>	
Furniture and fittings	3 - 33 years
Water craft	15 years
Office equipment	3 - 35 years
Specialised plant and equipment	10 - 26 years
Other items of plant and equipment	2 - 29 years
Buildings	20 - 80 years
Specialised vehicles	3 - 20 years

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.4 Property, plant and equipment (continued)

Other vehicles

3 - 28 years

Assets under construction are not depreciated.

The asset management policy contains the details of the components and their specific useful life estimates.

The residual value, the useful life and the depreciation method of property, plant and equipment are reviewed at least at every reporting date.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the statement of financial performance.

The City assesses at each reporting date whether there is any indication that the City expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the City revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in the statement of financial performance unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in the statement of financial performance when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.5 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes are classified and recognised as intangible assets and obligations.

Intangible assets are initially recognised at cost. The cost of an intangible asset is the purchase price and other costs attributable to bring the intangible asset to the location and condition necessary for it to be capable of operating in the manner intended by the City, or where an intangible asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost.

Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Intangible assets are derecognised on disposal, or when no future economic benefits are expected from its use or disposal. Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation to intangible assets is provided on a straight line basis as follows:

Item	Useful life
Computer software	1 - 23 years
Servitudes	indefinite

The gain or loss arising from the derecognition of an intangible asset is recognised in the statement of financial performance when the asset is derecognised.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- > it is technically feasible to complete the asset so that it will be available for use or sale.
- > there is an intention to complete and use or sell it.
- > there is an ability to use or sell it.
- > it will generate probable future economic benefits or service potential.
- > there are available technical, financial and other resources to complete the development and to use or sell the asset.
- > the expenditure attributable to the asset during its development can be measured reliably.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.6 Heritage assets

A heritage asset is as an asset that has a cultural, environmental, historical, natural, scientific, technological or artistic significance, and is held indefinitely for the benefit of present and future generations.

The City recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the City, and the cost or fair value of the asset can be measured reliably.

Heritage assets are measured at cost. Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition. The cost of a purchased heritage asset comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
- any costs directly attributable to bringing the heritage asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Heritage assets are subsequently measured at cost, less accumulated impairment losses. Where a heritage asset is acquired through a non-exchange transaction, its cost is deemed to be its fair value as at the date of acquisition.

Transfers to heritage assets are made only when the asset meets the definition of a heritage asset and transfers from heritage assets are made only when the asset no longer meets the definition of a heritage asset. Transfers to and from heritage assets are done at the carrying amount of the assets transferred at the date of transfer.

The City assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the City estimates the recoverable amount or the recoverable service amount of the heritage asset.

Most heritage assets have an indefinite useful life as they are to be preserved for current and future generations and might appreciate in value over time due to their cultural, environmental, historical, natural, scientific, technological and/or artistic significance. Based on this analysis, there is no definite limit to the period over which a heritage asset is expected to be held by the City. The useful life of the heritage asset is therefore likely to be indefinite or the annual depreciation is likely to be immaterial.

The City derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from the derecognition of a heritage asset is recognised in the statement of financial performance when the asset is derecognised.

### 1.7 Investments in controlled entities

Municipal controlled entities are those entities which the City owns or over whose financial and operating policies it has the power to exercise beneficial control.

In the City's annual financial statements, investments in controlled entities are carried at cost less any accumulated impairment.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.8 Financial instruments

#### Financial Instruments

A financial instrument is recognised if the City becomes a party to the contractual provisions of the instrument.

#### Financial Assets

A financial asset is any asset that is a cash or contractual right to receive cash. In accordance with the Standards of GRAP 104 the Financial Assets of the City are classified as follows into the three categories allowed by this standard:

- Financial asset at amortised cost being a non-derivative financial asset with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current asset
- Financial assets measured at fair value being financial assets that meet either of the following conditions:
  - a) Derivatives;
  - b) Combined instruments that are designated at fair value;
  - c) Instruments held for trading;
  - d) Non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; or
  - e) Financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Financial assets measured at cost being investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

The City has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

Type of financial assets	Classifications
Other investments	amortised cost
Receivables from exchange	amortised cost
Cash and cash equivalents	amortised cost
Long-term receivables	amortised cost
Other investments (unlisted shares)	cost

#### Financial Liabilities

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity.

The following main categories of financial liabilities and the classification determining how they are measured exist:

- Financial liabilities measured at fair value; or
- Financial liabilities measured at amortised cost.

The City has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

Type of financial liability	Classifications
Long-term liabilities	amortised cost
Trade and other-payables from exchange transactions	amortised cost
Consumer deposits	amortised cost
Finance lease obligations	amortised cost

#### Initial recognition

The City recognises a financial asset or a financial liability in its statement of financial position when the City becomes a party to the contractual provisions of the instrument.

The City recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

The City measures a financial asset and financial liability initially at its fair value plus, in the case of a financial asset or a liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The City first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the City analysis a concessionary loan into its component parts and accounts for each component separately. The City accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or,
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The City measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value;
- Financial instruments at amortised cost; and
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review at each reporting period.

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the City establishes fair value by using a valuation technique.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset measured at fair value is recognised in the statement of financial performance.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in the statement of financial performance when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Impairment and uncollectibility of financial assets

The City assess at the end of each reporting period whether there is any objective evidence that a financial asset is impaired.

##### a) Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly through the use of an allowance account. The amount of the loss is recognised in the statement of financial performance.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the statement of financial performance.

##### b) Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

#### Derecognition

##### a) Financial assets

The City derecognises financial assets (or part of a financial assets) when the contractual rights to the cash flows from the financial asset expire, are settled or waived or when the City has transferred all of the significant risks and rewards of ownership using trade date accounting.

On derecognition of a financial asset (or part of a financial asset), the difference between the carrying amount and the sum of the consideration received is recognised in the statement of financial performance.

##### b) Financial liabilities

The City removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished (when the obligation specified in the contract is discharged, cancelled, expires or waived).

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the statement of financial performance. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

#### Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in the statement of financial performance.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in the statement of financial performance.

Gains and losses relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in the statement of financial performance.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the City currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.8 Financial instruments (continued)

In accounting for a transfer of a financial asset that does not qualify for derecognition, the City does not offset the transferred asset and the associated liability.

### 1.9 Inventories

Inventories are assets:

- a) in the form of materials or supplies to be consumed in the production process;
- b) in the form of materials or supplies to be consumed or distributed in the rendering of services;
- c) held for sale or distribution in the ordinary course of operations; or
- d) in the process of production for sale or distribution.

Inventories shall be recognised as an asset if, and only if:

- it is probable that future economic benefits or service potential associated with the item will flow to the City; and
- the cost of the inventories can be measured reliably.

Inventories are initially recognised at cost. The cost of inventory shall comprise of all costs, costs of conversion and other costs, incurred to bringing the inventories to their present location and condition.

Where inventory is acquired by the City for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Inventories held for sale in the ordinary course of business are valued at the lower of cost and net realisable value, or where unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost or current replacement cost.

Inventories held for consumption, distribution, consumables stores, raw materials, finished goods and unsold properties, are valued at lower of cost and net replacement cost.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset. The first-in-first-out method is the basis of allocating costs to inventories, except for water balance which is determined at weighted average cost at the reporting date based on the water volume in the network on hand.

Redundant and slow-moving inventories are identified and written down to the estimated net realisable value, and are recognised as an expense in the period in which the write-down or loss occurs. Inventories identified for write-down/write-off, but for which a council resolution, to authorise the write-down/write-off, has not yet been obtained, is provided for as a provision for obsolete stock. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.10 Provisions and contingencies

A provision is recognised when the City has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The City does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date. Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures to which the provision was originally recognised.

#### a) COID provision

The provision for COID pensions and medical aid liability is based on eligible members, their current age and their future life expectancy. Cash flows are projected on the basis of current pension payments escalated at 6.50% (2018: 7.00%) per annum over members' expected lives. Resulting cash flows have been discounted to Net Present Value applying a discount rate of 10.68% (2018: 10.52%).

#### b) Landfill rehabilitation provision

The landfill rehabilitation provision is created for the rehabilitation of the current operational sites at the future estimated time of closure. The value of the provision is based on the expected future cost to rehabilitate the various sites discounted back to the statement of financial position date at the cost of capital (time value of money), which is currently 10.68% (2018: 10.52%).

The City has an obligation to rehabilitate these landfill sites. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which the City incurs as a consequence of having used the property during a particular period for landfill purposes. The City estimates the useful lives and make assumptions as to the useful lives of these assets, which influence the provision for future costs.

Changes in the measurement of the provision that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

- a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in the statement of financial performance; and
- c) if the adjustment results in an addition to the cost of an asset, the City considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If such an indication exists, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in the statement of financial performance.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in the statement of financial performance as they occur.

The periodic unwinding of the discount is recognised in the statement of financial performance as a finance cost as it occurs.

### 1.11 Impairment of cash-generating assets

The City classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. A commercial return means that the return charged by the entity is commensurate with the risk associated with holding the asset and the asset is intended to generate positive cash inflows. All other assets are classified as non-cash-generating assets.

The City does not have any cash generating assets, as its primary objective is service delivery.



# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.12 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

The City assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the City estimates the recoverable service amount of the asset.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

The City assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

### 1.13 Employee benefits

The City provides short term benefits, long term benefits and retirement benefits for its employees and councillors.

#### Benefits

##### Short-term employee benefits

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or in the case of non-accumulating absences, when the absence occurs.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance and a reliable estimate can be made at the reporting date.

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total accrued leave days at year end, any unused leave days are forfeited six months after the end of leave cycle.

##### Long services awards

The City offers various types of long service awards to its employees. The provision is to recognise the present value of the obligation as at the reporting date.

##### Retirement funds

The City contributes to defined contribution and defined benefit funds. These funds are multi-employer funds.

##### Defined contribution plans

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.13 Employee benefits (continued)

A defined contribution plan is a plan under which the city pays fixed contributions into a separate entity. The City has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The City's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees.

#### Defined benefit plans

A defined benefit plan is a plan that defines an amount of benefit that an employee will receive on retirement.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate.

Valuations of these obligations are carried out by independent qualified actuaries regularly, as may be required for fair presentation.

Actuarial gains or losses recognised immediately in the Statement of Financial Performance.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

The City recognises all liabilities and all gains and losses.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the City is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In statement of financial performance, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

The City does not apply "defined benefit accounting" to the defined benefit funds to which it is a member where these funds are classified in terms of IAS 19 as multi-employer plans, as sufficient information is not available to apply the principles involved.

To the extent that a surplus or deficit in the plan, based on available information, may affect the amount of future contributions, these are assessed. In the case of surpluses, no change is made in the rate of contributions. In the case of deficits, the City will increase contributions on a phased basis. To the extent that the full discounted value of obligations to the funds is not fully accounted for at year end, a contingent liability arises and is reported on accordingly.

#### Medical Aid: Continued Members

The City provides post-retirement benefits by subsidising the medical aid contributions of certain retired staff. According to the rules of the medical aid funds, with which the City is associated, a member (subject to the applicable conditions of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for the portion as determined by Council from time to time, of the medical aid membership fee, and the City for the remaining portion.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.14 Revenue from exchange transactions

Revenue, excluding value-added taxation where applicable, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

The City recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the City and when specific criteria have been met for each of the City's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The City bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, stock rotation, price protection, rebates and other similar allowances.

Revenue from exchange transactions refers to revenue that accrued to the City directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

#### Service Charges

Service charges relating to electricity and water are based on consumption. Meters are read on a periodic basis and are recognised as revenue when billed. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

#### Pre-paid electricity

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale, when risks are transferred to the consumer..

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- > the City has transferred to the buyer the significant risks and rewards of ownership of the goods;
- > the City retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- > the amount of revenue can be measured reliably;
- > it is probable that the economic benefits or service potential associated with the transaction will flow to the City;
- > the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Income from agency services

Income for agency services, where the entity acts as an agent, is recognised monthly once the income collected on behalf of principals is earned. The income is recognised in terms of the agency agreement.

#### Interest

Interest earned on investments is recognised in the statement of financial performance on a time-proportionate basis, which takes into account the effective yield on the investment.

#### Dividends

Dividends are recognised on the date that the City becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

#### Revenue Recognition of Unclaimed Deposits – exchange revenue

Unclaimed deposits older than one (1) year are recognised as revenue.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.15 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the City received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

#### **Rates and Taxes – non-exchange revenue**

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

#### **Fines**

Fines constitute both spot fines and camera fines. Fines are recognised when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. It is measured at the best estimate, based on past experience, of the amount of revenue the City is expected to enforce.

Subsequent to initial recognition and measurement, the City assess the collectability of the revenue and recognises a separate impairment loss where appropriate.

#### **Donations and Contributions**

Donations and funding are recognised as revenue to the extent that the City has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

#### **Transfers and subsidies**

##### **Unconditional Grants**

Equitable share allocations are recognised in revenue when they are appropriated and received by the City.

##### **Conditional Grants**

Conditional grants recognised as revenue to the extent that the City has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Interest earned on grants received and invested is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the City's interest it is recognised as interest earned in the Statement of Financial Performance.

##### **Services Received In-kind**

Services in kind are recognised at its fair value when it is significant to the operations and/or service delivery objectives and when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. If the services in-kind are not significant to the operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, only the nature and type of services in-kind received during the reporting period is disclosed.

##### **Bequests**

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the City, and the fair value of the assets can be measured reliably.

##### **Unspent conditional grants and receipts**

Amounts received before the related work is performed are included in the statement of financial position as a liability, as unspent conditional grants and receipts.

### 1.16 Grant-in-aid (expense)

The City annually awards grants to individuals and organisations based on merit. When making these transfers, the City does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the financial statements as expenses in the period that the events giving rise to the transfer occurred.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.17 Leases

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the City. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### Finance leases – lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### Finance leases – lessor

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

### 1.18 Borrowing costs

Borrowing costs are interest and other expenses incurred by the City in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.19 Value Added Tax

The City accounts for value-added tax (VAT) on the payment basis.

### 1.20 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, City or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.21 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.22 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the City's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.23 Internal reserves

Included in the accumulated surplus are internal reserves, no separate line items are presented, in accordance with the GRAP reporting framework, but provision is made in the budget process for funding of these reserve. The amounts set aside for these reserves are invested in accordance with the investment policy of the City. The following internal reserves are maintained:

#### **Capital replacement reserve (CRR)**

The reserve is created for the replacement of service delivery assets when they reach the end of their economic lives to ensure continue of provision of such services, and to minimise the impact of raising external funding or over reliance on grant funds.

#### **Self-insurance reserve**

A self insurance reserve was established for a self-insurance purpose and to minimize the external insurance costs. The reserve is based on recognised insurance industry principles to complement the external cover provided by insurance companies.

#### **Sinking funds reserve**

The reserve is created for the provision of repayments of long-term borrowing raised to funds capital projects, and to meet repayment conditions on such borrowings.

### 1.24 Budget information

The approved budget is prepared in accordance with GRAP standards on an accrual basis, and are consistent with accounting policies as adopted by the Council for the preparation of this annual financial statements, and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30. These figures are those approved by Council both at the beginning and during the year, following a period of consultation with the public as part of the Integrated Development Plan (IDP). The amounts are scheduled as a separate additional financial statement, called the statement of comparison of budget and actual amounts. Explanatory comments to material differences are provided in the notes to the annual financial statements.

### 1.25 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

Management is regarded as a related party and comprises the councillors, Executive Mayor, Mayoral Committee members, City Manager, Head of departments and all other managers reporting directly to the City Manager or as designated by the City Manager.

### 1.26 Events after reporting date

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

Reporting date means the date of the last day of the reporting period to which the annual financial statements relate. The City adjusts the amounts recognised in its annual financial statements to reflect adjusting events after the reporting date. The City does not adjust the amounts recognised in its annual financial statements to reflect non-adjusting events after the reporting date.

### 1.27 Commitments

The City discloses capital expenditure as approved in the budget for each class of capital assets (PPE, investment properties, intangible assets and heritage assets) and as well as future minimum lease payments under non-cancellable operating leases. No commitments are disclosed for operating expenditure as the nature of the contracts "As and When required".

### 1.28 Going concern

These annual financial statements were prepared based on the expectation that the City will continue to operate as a going concern for at least the next 12 months. The City's budget for the next financial year as approved by Council is fully funded.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

### 1.29 Comparative figures

When the presentation or classification of items in the annual financial statements is amended due to better presentation and/or better understandability and/or comparability and/or due to the implementation of a new or amended standard, prior period comparative amounts are restated. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 2. New standards and interpretations

#### 2.1 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the City's accounting periods beginning on or after 01 July 2019:

Standard and Interpretation: Effective date:	Years beginning on or after
>GRAP 32: Service Concession Arrangements: Grantor	01 April 2019
>GRAP 108: Statutory Receivables	01 April 2019
>GRAP 109: Accounting by Principals and Agents	01 April 2019
>IGRAP 17: Service Concession Arrangements: Where a Grantor controls significant residual interest	01 April 2019
>GRAP 18: Recognition and derecognition of land	01 April 2019
>GRAP 19: Liabilities to pay levies	01 April 2019
>GRAP 20: Related Party Disclosures	01 April 2019

No material impact are expected from these changes.

#### Approved and not yet effective.

The following standards were approved, but their effective dates were not yet determined by the Minister of Finance.

- >GRAP 34: Separate Financial Statements
- >GRAP 35: Consolidated Financial Statements
- >GRAP 36: Investments in Associates and Joint
- >GRAP 37: Joint Arrangements
- >GRAP 38: Disclosure of Interests in Other Entities
- >GRAP 110: Living and Non-living Resources

No material impact are expected from these changes.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 3. Investment property

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	614,334,561	(109,947,241)	504,387,320	600,771,502	(102,261,794)	498,509,708

#### Reconciliation of investment property - 2019

	Opening balance	Additions	Depreciation	Total
Investment property	498,509,708	13,563,059	(7,685,447)	504,387,320

#### Reconciliation of investment property - 2018

	Opening balance	Additions	Transfers	Depreciation	Total
Investment property	446,998,545	40,779,611	17,966,577	(7,235,025)	498,509,708

#### Other disclosure

##### Total rental income received

Investment property	16,062,741	19,938,856
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Included in the carrying value of investment property is an amount R85,381,790 (2018: R71,818,730) which relates to work in progress at the reporting date.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the City.



# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 4. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	2,215,543,574	-	2,215,543,574	2,219,604,124	-	2,219,604,124
Infrastructure	58,397,701,391	(16,021,246,925)	42,376,454,466	54,866,848,861	(14,514,542,525)	40,352,306,336
Community	8,879,901,381	(2,286,706,313)	6,593,195,068	7,753,452,493	(2,014,217,116)	5,739,235,377
Movable Assets	4,057,137,379	(2,414,854,468)	1,642,282,911	3,779,776,373	(2,186,232,309)	1,593,544,064
Operational and housing buildings	3,444,267,889	(1,036,929,493)	2,407,338,396	3,199,773,965	(927,893,907)	2,271,880,058
<b>Total</b>	<b>76,994,551,614</b>	<b>(21,759,737,199)</b>	<b>55,234,814,415</b>	<b>71,819,455,816</b>	<b>(19,642,885,857)</b>	<b>52,176,569,959</b>

### Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers from assets under constructions	Transfers to asset class	Other Movements	Transfer to Other classes	Depreciation	Impairment loss	Total
Land	2,219,604,124	-	(4,060,550)	-	-	-	-	-	-	2,215,543,574
Infrastructure	40,352,306,336	4,232,816,650	(37,927,074)	963,245,862	(1,322,512,233)	29,628,665	(292,193,185)	(1,548,865,787)	(44,768)	42,376,454,466
Community	5,739,235,377	822,201,985	(839,735)	583,587,327	(284,358,140)	13,791,162	(33,686,891)	(245,108,791)	(1,627,226)	6,593,195,068
Movable Assets	1,593,544,064	413,997,110	(10,010,338)	-	-	-	-	(355,247,925)	-	1,642,282,911
Operational and housing buildings	2,271,880,058	244,617,171	(7,552)	20,738,732	(20,738,732)	-	-	(109,135,273)	(16,008)	2,407,338,396
	<b>52,176,569,959</b>	<b>5,713,632,916</b>	<b>(52,845,249)</b>	<b>1,567,571,921</b>	<b>(1,627,609,105)</b>	<b>43,419,827</b>	<b>(325,880,076)</b>	<b>(2,258,357,776)</b>	<b>(1,688,002)</b>	<b>55,234,814,415</b>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 4. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals/Derecognition	Transfers from assets under constructions	Transfers	Transfers to asset class	Transfers other classes of assets	Depreciation	Impairment loss	Total
Land	2,225,413,834	-	(9,786,980)	3,977,270	-	-	-	-	-	2,219,604,124
Infrastructure	37,663,347,273	3,577,704,922	(67,084,729)	1,612,306,934	66,349,785	(1,585,108,375)	606,989,264	(1,448,163,110)	(74,035,628)	40,352,306,336
Community	5,193,057,119	728,255,202	-	342,171,017	-	(276,205,904)	1,458,770	(234,354,619)	(15,146,208)	5,739,235,377
Movable Assets	1,501,837,518	481,828,537	(600,175)	-	-	-	(7,444,149)	(382,077,667)	-	1,593,544,064
Operational and housing buildings	2,105,580,650	529,942,908	-	201,343,705	-	(215,236,792)	(234,321,761)	(110,390,027)	(5,038,625)	2,271,880,058
	<b>48,689,236,394</b>	<b>5,317,731,569</b>	<b>(77,471,884)</b>	<b>2,159,798,926</b>	<b>66,349,785</b>	<b>(2,076,551,071)</b>	<b>366,682,124</b>	<b>(2,174,985,423)</b>	<b>(94,220,461)</b>	<b>52,176,569,959</b>

#### Classes of assets under construction

Assets under construction:

Infrastructure	6,359,444,042	3,778,305,889
Community	1,225,153,712	687,309,867
Other assets	626,911,360	403,032,921
	<b>8,211,509,114</b>	<b>4,868,648,677</b>

#### Disclosure of repairs and maintenance (material and other costs)

Infrastructure	2,048,610,456	1,739,371,446
Community	745,268	145,409,380
Investment property	42,821,320	42,268,200
Other property, plant and equipment	284,814,029	179,099,027
	<b>2,376,991,073</b>	<b>2,106,148,053</b>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 4. Property, plant and equipment (continued)

Compensation received for losses on property, plant and equipment – included in operating profit.

Buildings	1,573,328	367,334
Motor vehicles	81,165	62,856
IT equipment	-	88,930
Infrastructure	24,038,454	1,586,056
	<b>25,692,947</b>	<b>2,105,176</b>

The other movement relates to transfers out of property, plant and equipment, which were effected as follows, an amount of R277,121,139 (2018: R234,283,846) was transferred to inventory. Capital spares were bought as part of the project capital expenditure, which were transferred to inventory R15,031,251 (2018: R45,045,033), this relates to the net movement of capital spares for the year between the inventory account and the WIP account, refer to note 10.

### Deemed cost

Included in the additions for the year is public contributed assets with deemed cost amounts of R29,628,665 (2018: R590,501,134). Deemed cost was determined using fair value or depreciated replacement cost, depending on the most appropriate measurement for the specific asset/scenario.

### 5. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software (other)	859,084,611	(256,627,742)	602,456,869	581,188,941	(127,087,584)	454,101,357
Rights to use naturally occurring assets	243,798,639	-	243,798,639	243,798,639	-	243,798,639
<b>Total</b>	<b>1,102,883,250</b>	<b>(256,627,742)</b>	<b>846,255,508</b>	<b>824,987,580</b>	<b>(127,087,584)</b>	<b>697,899,996</b>

### Reconciliation of intangible assets - 2019

	Opening balance	Additions	Disposals	Transfers received from other classes	Amortisation	Total
Computer software	454,101,357	258,397,644	(35,613,857)	60,077,886	(134,506,161)	602,456,869
Servitudes	243,798,639	-	-	-	-	243,798,639
	<b>697,899,996</b>	<b>258,397,644</b>	<b>(35,613,857)</b>	<b>60,077,886</b>	<b>(134,506,161)</b>	<b>846,255,508</b>

### Reconciliation of intangible assets - 2018

	Opening balance	Additions	Disposals/derecognitions	Other changes, movements	Amortisation	Total
Computer software	311,886,493	335,563,630	(134,133,544)	(7,312,120)	(51,903,102)	454,101,357
Servitudes	243,798,639	-	-	-	-	243,798,639
	<b>555,685,132</b>	<b>335,563,630</b>	<b>(134,133,544)</b>	<b>(7,312,120)</b>	<b>(51,903,102)</b>	<b>697,899,996</b>

### Other information

### Reconciliation of work in progress

Included in additions is the following amounts relating to software still in development:

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>5. Intangible assets (continued)</b>		
<b>Work in progress</b>		
Opening balance	27,959,262	22,402,086
Software development incurred during the year	258,397,644	335,563,630
Transfers/ capitalisation	(81,367,957)	(330,006,454)
	<b>204,988,949</b>	<b>27,959,262</b>

## 6. Heritage assets

	2019			2018		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art collections,antiquities and exhibits	20,216,333	-	20,216,333	20,216,333	-	20,216,333
Conservation areas	351,149	-	351,149	351,149	-	351,149
Historical buildings	5,425,362	-	5,425,362	5,425,362	-	5,425,362
Other heritage assets	43,040,667	-	43,040,667	43,040,667	-	43,040,667
<b>Total</b>	<b>69,033,511</b>	<b>-</b>	<b>69,033,511</b>	<b>69,033,511</b>	<b>-</b>	<b>69,033,511</b>

### Reconciliation of heritage assets 2019

	Opening balance	Total
Art collections,antiquities and exhibits	20,216,333	20,216,333
Conservation areas	351,149	351,149
Historical buildings	5,425,362	5,425,362
Other heritage assets	43,040,667	43,040,667
	<b>69,033,511</b>	<b>69,033,511</b>

### Reconciliation of heritage assets 2018

	Opening balance	Total
Art collections,antiquities and exhibits	20,216,333	20,216,333
Conservation areas	351,149	351,149
Historical buildings	5,425,362	5,425,362
Other heritage assets	43,040,667	43,040,667
	<b>69,033,511</b>	<b>69,033,511</b>

### Deemed costs

Deemed cost was determined using fair value or depreciated replacement cost.

## 7. Investments in controlled entities

Name of company	% holding 2019	% holding 2018	Carrying amount 2019	Carrying amount 2018
Brakpan Bus Company SOC Ltd	100.00 %	100.00 %	6	6
East Rand Water Care Company, NPC	97.00 %	97.00 %	-	-
Ekurhuleni Housing Company	100.00 %	100.00 %	100	100
			<b>106</b>	<b>106</b>

## 8. Other investments

### At cost

Unlisted shares	4,000,000	4,000,000
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# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>8. Other investments (continued)</b>		
<b>At amortised cost</b>		
Investments	2,085,662,816	2,168,786,678
These investments have varying interest rates as well as varying maturity dates.		
<b>Non-current assets</b>		
At cost	4,000,000	4,000,000
At amortised cost	1,911,108,684	1,621,681,259
	<b>1,915,108,684</b>	<b>1,625,681,259</b>
<b>Current assets</b>		
At amortised cost	174,554,132	547,105,419
	<b>2,089,662,816</b>	<b>2,172,786,678</b>

### Residual interest at cost

Fair value information has not been provided for equity instruments that do not have a quoted market price and for which a fair value cannot be measured reliably.

The carrying amount of these financial instruments is as follows:

Rand Airport	4,000,000	4,000,000
20% interest in ordinary shares		

The company's draft financial statements used were for the period ended 29 February 2016 and no audited financial information was received for financial years ending 2016 to 2019.

The company's equity amounted to R605,743,120 represented by share capital of R5,201,000, reserves of R147,090,563 as well as retained income of R453,451,557 as at 28 February 2016.

The City has not reclassified any financial assets from cost or amortised cost to fair value during the current or prior year.

There were no gains or losses realised on the disposal of held to maturity financial assets for the year ended 2019, as all the financial assets will disposed of at their redemption date.

Investments with a carrying value of R1,899,477,077 (2018: R1,617,372,812) are held with the top five banks in South Africa for the repayment of long term liabilities with a carrying value of R2,415,000,000 (2018: R2,415,000,000) as disclosed in the long-term liabilities note (note 15). The amount of R2,415,000,000 consist of three bonds for which structured deposit sinking funds were established.

None of the investments at amortised cost are past due or impaired.

### Credit quality of other financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (as determined by rating agencies) available, or to historical information about counterparty default rates. Investments are only made with South African top five banks.

### 9. Long-term receivables

Non-current receivables	5,437,683	5,413,655
Bad debt provision	(2,108,468)	(2,095,831)
	<b>3,329,215</b>	<b>3,317,824</b>

#### The long-term receivables comprises of:

Rental deposits made	R1,220,747 (June 2018 - R1,221,993)
Housing schemes	R2,108,468 (June 2018 - R2,095,831)

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>10. Inventories</b>		
Electrical consumables	371,273,510	348,864,581
Cleansing consumables	1,816,907	965,214
Consumable stores	6,597,116	3,555,358
Maintenance materials	18,719,637	12,767,376
Water consumables	12,216,795	14,425,806
Water inventory	10,223,389	10,885,929
Land held as inventory for social housing and development	900,628,434	623,507,295
Fuel (diesel, petrol)	8,952,164	7,400,238
	<b>1,330,427,952</b>	<b>1,022,371,797</b>
Provision for obsolete Inventories	-	(994,183)
	<b>1,330,427,952</b>	<b>1,021,377,614</b>

Inventory written down due to redundancy/obsolescence is valued at R0 (2018: R994,183) by way of a provision for obsolete inventories.

### 11. Receivables from exchange transactions

Consumer debtors - Electricity - Gross	3,092,603,039	3,640,154,693
Consumer debtors - Electricity - Impairment	(1,220,449,102)	(1,111,692,673)
Consumer debtors - Water - Gross	4,776,864,532	5,532,121,128
Consumer debtors - Water - Impairment	(2,907,479,981)	(4,245,521,060)
Consumer debtors - Waste water - Gross	1,319,288,928	1,571,975,841
Consumer debtors - Waste water - Impairment	(797,920,894)	(1,206,074,027)
Consumer debtors - Refuse - Gross	1,201,442,853	1,539,219,436
Consumer debtors - Refuse - Impairment	(802,754,337)	(1,251,568,668)
Consumer debtors - Other - Gross	97,515,190	134,863,617
Consumer debtors - Other - Impairment	(92,245,202)	(128,917,550)
Consumer debtors - Interest and sundries - Gross	1,442,452,749	2,256,456,038
Consumer debtors - Interest and sundries - Impairment	(542,954,086)	(2,039,032,668)
Pre-paid electricity 3rd party vendors	79,995,709	71,408,476
Other receivables	205,163,641	234,943,015
VAT accruals on outstanding creditors	660,380,096	591,507,687
VAT receivables	241,461,299	396,912,766
Operating lease straightline	1,794,075	587,510
Allowance other receivables	(99,044,206)	(99,044,206)
	<b>6,656,114,303</b>	<b>5,888,299,355</b>

### Credit quality of trade and other receivables

In determining the recoverability of other receivables, the City considers any change in the credit quality of other receivables from the date on which the credit was initially granted up to the reporting date.

### 12. Receivables from non-exchange transactions

Traffic fines - Gross	197,171,381	165,603,173
Traffic fines - Impairment	(168,146,152)	(114,497,004)
Germiston Municipal Retirement Fund	37,084,479	11,145,858
Property rates debtors - Gross	2,083,158,022	2,158,827,348
Property rates debtors - Impairment	(1,406,072,367)	(1,364,380,668)
	<b>743,195,363</b>	<b>856,698,707</b>

### Credit quality of receivables from non-exchange transactions

In determining the recoverability of other receivables, the City considers any change in the credit quality of other receivables from the date on which the credit was initially granted up to the reporting date.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>13. Consumer debtors disclosure</b>		
<b>Gross balances</b>		
Consumer debtors - Rates	2,083,158,022	2,158,827,348
Consumer debtors - Electricity	3,092,603,039	3,640,154,693
Consumer debtors - Water	4,776,864,532	5,532,121,128
Consumer debtors - Waste water	1,319,288,928	1,571,975,841
Consumer debtors - Refuse	1,201,442,853	1,539,219,436
Consumer debtors - Other	97,515,190	134,863,617
Consumer debtors - Interest and sundries	1,442,452,749	2,256,456,038
	<b>14,013,325,313</b>	<b>16,833,618,101</b>
<b>Less: Allowance for impairment</b>		
Consumer debtors - Rates	(1,406,072,367)	(1,364,380,668)
Consumer debtors - Electricity	(1,220,449,102)	(1,111,692,673)
Consumer debtors - Water	(2,907,479,981)	(4,245,521,060)
Consumer debtors - Waste water	(797,920,894)	(1,206,074,027)
Consumer debtors - Refuse	(802,754,337)	(1,251,568,668)
Consumer debtors - Other	(92,245,202)	(128,917,550)
Consumer debtors - Interest and sundries	(542,954,086)	(2,039,032,668)
	<b>(7,769,875,969)</b>	<b>(11,347,187,314)</b>
<b>Net balance</b>		
Consumer debtors - Rates	677,085,655	794,446,680
Consumer debtors - Electricity	1,872,153,937	2,528,462,020
Consumer debtors - Water	1,869,384,551	1,286,600,068
Consumer debtors - Waste water	521,368,034	365,901,814
Consumer debtors - Refuse	398,688,516	287,650,768
Consumer debtors - Housing rental	5,269,988	5,946,067
Consumer debtors - Interest and sundries	899,498,663	217,423,370
	<b>6,243,449,344</b>	<b>5,486,430,787</b>
<b>Included in above is receivables from exchange transactions</b>		
Electricity	1,872,153,937	2,528,462,020
Water	1,869,384,551	1,286,600,068
Waste water	521,368,034	365,901,815
Refuse	398,688,516	287,650,768
Housing rental	5,269,988	5,946,067
Interest and sundries	899,498,663	217,423,369
	<b>5,566,363,689</b>	<b>4,691,984,107</b>
<b>Included in above is receivables from non-exchange transactions (taxes and transfers)</b>		
Rates	677,085,655	794,446,680
<b>Net balance</b>	<b>6,243,449,344</b>	<b>5,486,430,787</b>
<b>Rates</b>		
Current (0 -30 days)	353,808,578	370,201,264
31 - 60 days	101,646,158	99,392,932
61 - 90 days	79,799,942	69,516,083
91 - 120 days	1,547,903,344	1,619,717,088
	<b>2,083,158,022</b>	<b>2,158,827,367</b>
<b>Electricity</b>		
Current (0 -30 days)	2,171,724,367	2,182,824,406
31 - 60 days	124,879,054	135,012,265
61 - 90 days	69,433,515	81,463,382
91 - 120 days	726,566,102	1,240,854,641
	<b>3,092,603,038</b>	<b>3,640,154,694</b>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>13. Consumer debtors disclosure (continued)</b>		
<b>Water</b>		
Current (0 -30 days)	788,941,304	688,954,180
31 - 60 days	185,532,421	160,368,268
61 - 90 days	151,825,200	135,461,651
91 - 120 days	3,650,565,607	4,547,337,028
	<b>4,776,864,532</b>	<b>5,532,121,127</b>
<b>Waste water</b>		
Current (0 -30 days)	243,815,683	202,438,122
31 - 60 days	52,432,878	43,497,824
61 - 90 days	40,516,047	37,609,068
91 - 120 days	982,524,319	1,288,430,828
	<b>1,319,288,927</b>	<b>1,571,975,842</b>
<b>Refuse</b>		
Current (0 -30 days)	96,981,648	97,378,085
31 - 60 days	46,919,716	45,843,892
61 - 90 days	40,680,768	40,515,191
91 - 120 days	1,016,860,720	1,355,482,267
	<b>1,201,442,852</b>	<b>1,539,219,435</b>
<b>Housing rental</b>		
Current (0 -30 days)	1,120,422	1,546,491
31 - 60 days	2,098,209	2,232,219
61 - 90 days	2,051,357	2,167,356
91 - 120 days	92,245,202	128,917,550
	<b>97,515,190</b>	<b>134,863,616</b>
<b>Other (specify)</b>		
Current (0 -30 days)	83,784,868	99,613,260
31 - 60 days	52,062,481	51,296,731
61 - 90 days	48,067,116	43,165,831
91 - 120 days	1,258,538,285	2,062,380,215
	<b>1,442,452,750</b>	<b>2,256,456,037</b>



# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>13. Consumer debtors disclosure (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Residential</b>		
Current (0 -30 days)	1,445,775,316	1,362,297,938
31 - 60 days	381,414,154	350,371,996
61 - 90 days	310,869,086	292,188,795
91 - 120 days	7,724,321,486	10,065,643,872
	9,862,380,042	12,070,502,601
Less: Allowance for impairment	(6,078,875,165)	(9,381,307,785)
	<b>3,783,504,877</b>	<b>2,689,194,816</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	2,146,949,057	2,138,453,792
31 - 60 days	164,662,933	166,522,727
61 - 90 days	108,390,145	110,657,778
91 - 120 days	1,295,528,001	1,825,070,803
	3,715,530,136	4,240,705,100
Less: Allowance for impairment	(1,591,320,458)	(1,578,893,486)
	<b>2,124,209,678</b>	<b>2,661,811,614</b>
<b>National and provincial government</b>		
Current (0 -30 days)	80,371,484	85,468,887
31 - 60 days	14,566,849	14,964,438
61 - 90 days	8,072,274	1,815,814
91 - 120 days	64,282,982	45,162,811
	167,293,589	147,411,950
Less: Allowance for impairment	(62,445,132)	(45,928,782)
	<b>104,848,457</b>	<b>101,483,168</b>
<b>Total</b>		
Current (0 -30 days)	3,740,176,869	3,642,955,809
31 - 60 days	565,570,918	537,644,131
61 - 90 days	432,373,944	409,898,563
91 - 120 days	9,275,203,581	12,243,119,617
	14,013,325,312	16,833,618,120
Less: Allowance for impairment	(7,769,875,967)	(11,347,187,333)
	<b>6,243,449,345</b>	<b>5,486,430,787</b>
<b>Less: Allowance for impairment</b>		
Current (0 -30 days)	(1,212,243,274)	(564,293,921)
31 - 60 days	(286,485,687)	(279,901,296)
61 - 90 days	(260,092,794)	(240,397,679)
91 - 120 days	(6,011,054,211)	(10,262,594,437)
	<b>(7,769,875,966)</b>	<b>(11,347,187,333)</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(11,347,187,333)	(10,456,750,395)
Contributions to allowance	(2,717,599,610)	(1,490,000,078)
Debt impairment written off against allowance	6,294,910,977	599,563,140
	<b>(7,769,875,966)</b>	<b>(11,347,187,333)</b>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 13. Consumer debtors disclosure (continued)

The total debtors for June 2019 includes a total of R1,822,903,893 (2018: R1,754,847,113) in respect of the value of revenue emanating from various meter reading cut-off dates at year end. This is an annual occurrence and is adjusted at every financial year end.

#### Credit quality of consumer debtors

In determining the recoverability of a receivable, the City considers any change in the credit quality of the receivable from the date on which the credit was initially granted, up to the reporting date. The concentration of credit risk is limited but take into consideration the repayments trends and collection rate, as the consumer base is large and unrelated. Accordingly, management believes on further credit provision are required in excess of the present allowance for doubtful debts.

#### Consumer debtors past due but not impaired

30 Days	4,862,102,897	3,078,661,888
60 Days	830,712,211	257,742,835
90 Days	673,088,726	169,500,883
90+ Days	14,845,281,509	1,980,525,181
	<b>21,211,185,343</b>	<b>5,486,430,787</b>

#### The ageing of consumer debts impaired

30 Days	1,121,926,027	564,293,921
60 Days	265,141,293	279,901,296
90 Days	240,714,781	240,397,679
90+ Days	5,570,077,928	10,262,594,436
	<b>7,197,860,029</b>	<b>11,347,187,332</b>

### 14. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	566,714	568,727
Bank balances	3,430,315,191	3,527,225,068
	<b>3,430,881,905</b>	<b>3,527,793,795</b>

The City has provided bank guarantees to the amount of R30,304,487 (2018: R26,074,874) with regard to special clauses in contracts concluded with various third parties. Most of these conditions have been met, and the guarantees will be cancelled in due course.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>14. Cash and cash equivalents (continued)</b>		
<b>Credit quality of cash at bank and short term deposits, excluding cash on hand</b>		
The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:		
<b>Cash book balances</b>		
ABSA - Direct banking Alberton	-	(2,170)
ABSA - Income Benoni	105,399	(1,630)
ABSA - Direct banking Benoni	7,616,350	15,358,331
MASK Account Benoni	-	(7,200)
ABSA - Direct banking KL Boksburg	4,006,631	6,824,417
ABSA - Income Brakpan	7,965,128	9,263,765
ABSA - Direct banking Germiston	7,458,364	12,937,425
ABSA - Direct banking Kempton Park	4,957,763	7,284,215
ABSA - Direct banking Edenvale	1,988,926	2,837,422
FNB Muask Account Edenvale	40,758,837	280,861,841
ABSA - Direct banking Springs	9,546,987	9,862,659
ABSA - Market account	1,134,982	1,134,982
STANDARD BANK - Mask Account Springs	48,293,123	336,502,057
ABSA - Salary account	-	(408,626)
ABSA - Treasury account	56,642,950	51,575,862
ABSA - Expenditure imprest account	-	1,104
Lease Bank Account	162,089	71,334
Petty Cash and Floats	566,714	568,727
NEDBANK Mask Account	(1,492,274)	100,325,450
E-Siyakhokha Mask Account	2,405,297	4,505,548
Nedbank - Salary Account	46,759,415	107,896,164
Nedbank - Expenditure Account	230,632,761	271,007,922
Nedbank - Treasury Account	1,205,074,449	190,596,582
Nedbank - USDG Account	516,058,884	744,250,820
Nedbank - Housing Account	512,883,693	40,991,016
Nedbank - Depreciation Reserve Account	94,945,755	555,139,180
Nedbank - External Finance Fund Account	190,772,368	154,590,125
Nedbank - Primary Bank Account	366,545,973	574,470,613
Nedbank - IRPTN Funding account	1,275,565	1,199,314
Nedbank - IRPTN Bank Collect	4,933,524	324,298
Nedbank - Traffic Fines Collection	118,174	135,669
Nedbank - License Account	3,161,616	2,823,129
Nedbank - Income Alberton	2,901,586	2,037,977
Nedbank - Direct banking Alberton	229,022	164,926
Nedbank - Income Benoni	2,754,904	2,418,012
Nedbank - Direct banking Benoni	271,724	347,082
Nedbank - Siyakhokha	(338,014)	(54,695)
Nedbank - Income Boksburg	3,267,047	5,196,614
Nedbank - Direct banking Boksburg	370,665	1,521,170
Nedbank - Solid Waste Account	(255,863)	38,961
Nedbank - Income Brakpan	4,511,463	3,864,024
Nedbank - Direct banking Brakpan	109,976	52,216
Nedbank - Income Edenvale	1,276,613	767,829
Nedbank - Direct banking Edenvale	229,831	119,412
Nedbank - Income Germiston	3,475,843	3,850,161
Nedbank - Direct banking Germiston	544,697	303,113
Nedbank - Income Kempton Park	4,140,636	3,907,190
Nedbank - Direct banking Kempton Park	557,163	428,483
Nedbank - Income Nigel	498,941	1,042,270
Nedbank - Direct banking Nigel	12,430,864	1,833,473
Nedbank - Income Springs	9,718,294	1,940,538
Nedbank - Direct banking Springs	17,807,144	13,740,363
Nedbank - Springs Market Account	1,099,926	1,427,188
Nedbank - Library Account	-	(72,858)
	<b>3,430,881,905</b>	<b>3,527,793,794</b>

The City had the following bank accounts

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand				2019		2018	
<b>14. Cash and cash equivalents (continued)</b>							
Account number / description	Bank statement balances			Cash book balances			
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017	
ABSA BANK - Income Alberton-111-841-0641	-	-	(22,284)	-	-	(22,284)	
ABSA BANK - Direct Banking Alberton - 111-840-0646	-	-	-	-	(2,170)	-	
ABSA BANK - Income Benoni - 4055327394	105,399	11,296	17,400,298	105,399	(1,630)	17,400,298	
ABSA BANK - Direct Banking Benoni - 4055328015	7,616,350	15,494,808	-	7,616,350	15,358,331	(158,927)	
ABSA BANK - Mask Account Benoni - 4065622380	-	-	-	-	(7,200)	(359,284)	
ABSA BANK - Income Boksburg - 230000069	-	-	8,369,516	-	-	8,585,659	
ABSA BANK - Direct Banking KL Boksburg - 230000220	4,044,754	6,840,482	-	4,006,631	6,824,417	(1,163,974)	
ABSA BANK - Direct Banking BT Boksburg - 230000255	-	-	499,391	-	-	391,441	
ABSA BANK - Income Brakpan - 240000024	7,712,058	8,336,677	2,057,691	7,965,128	9,263,765	1,939,100	
ABSA BANK - Prepaid sales account Brakpan-240159392	-	-	182,810	-	-	(409,500)	
ABSA BANK - Income Germiston - 2500002277	-	-	15,193,654	-	-	15,193,654	
ABSA BANK - Direct banking Germiston - 250000804	7,458,364	13,317,168	-	7,458,364	12,937,425	(148,287)	
ABSA BANK - Direct banking Kempton Park - 260181599	4,957,763	7,559,044	8,280,002	4,957,763	7,284,215	8,280,002	
ABSA BANK - Income Kempton Park - 260000004	-	-	-	-	-	(4,864,505)	
ABSA BANK - Income Edenvale - 4055442546	-	-	2,817,582	-	-	2,817,582	
ABSA BANK - Direct banking Edenvale- 4055442596	1,988,926	2,837,422	-	1,988,926	2,837,422	(74,998)	
ABSA BANK - Income Nigel - 270000010	-	-	10,584,320	-	-	10,495,200	
ABSA BANK - Income Springs - 280000051	-	-	-	-	-	(106,327)	
ABSA BANK - Direct Springs - 280000051	9,546,987	9,872,330	18,092,938	9,546,987	9,862,659	18,092,938	
ABSA BANK - Fresh Produce Market - 1135470160	-	1,163,055	882,345	1,134,982	1,134,982	1,134,982	
ABSA BANK - Lease Account 4075756252	-	-	240,375	-	-	240,439	
ABSA BANK - EFF account (ex CLF) - 4053834321	-	-	158	-	-	158	
ABSA BANK - C R R account (ex CDF) - 4053834779	-	-	1,489	-	-	1,489	
ABSA BANK - Primary bank Acc - 4053835084	-	-	10,116,607	-	-	10,116,607	
ABSA BANK - Salary account - 4055571973	-	(408,626)	(30,145)	-	(408,626)	(30,146)	
ABSA BANK - Treasury account - 4055571931	56,642,950	51,575,863	795,431,120	56,642,950	51,575,863	795,431,120	
ABSA BANK - Expenditure imprest acc - 4055571915	-	2,322	3,120	-	1,104	(2,755,900)	
ABSA BANK - USDG account - 4055571884	-	-	953	-	-	953	
ABSA BANK - Housing account - 4055571842	-	-	106	-	-	106	
CoE Traffic fines 4072777706	-	-	-	-	-	(48,395)	
FNB Mask account 62379403745	40,758,837	280,898,399	164,327,195	40,758,837	280,861,841	158,146,694	
Petty Cash and Floats	-	-	-	566,714	568,727	534,384	
Short term deposit Nedbank	-	-	1,065,997,148	-	-	1,065,997,148	
Standard bank mask account	48,293,123	336,516,929	208,619,384	48,293,123	336,502,057	208,617,356	
E-Siyakhokha Mask Account	2,358,518	4,500,060	15,497,560	2,405,297	4,505,548	15,532,682	
Nedbank Income Alberton	-	-	1,427,525	2,901,586	2,037,977	3,995,416	

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand				2019	2018	
<b>14. Cash and cash equivalents (continued)</b>						
Nedbank Direct banking Alberton	-	-	748,452	229,022	164,926	748,452
Nedbank Direct banking Benoni	-	-	2,275,441	271,724	347,082	2,272,020
Nedbank Income Benoni	-	-	6,110,298	2,754,904	2,418,012	10,347,523
Nedbak Income Boksburg	-	-	-	3,267,047	5,196,614	5,986,732
Nedbank Direct banking Boksburg	-	-	1,640,627	370,665	1,521,170	1,559,447
Nedbank Direct banking Brakpan	-	-	614,381	109,976	52,216	229,303
Nedbank Income Brakpan	-	-	229,303	4,511,463	3,864,024	1,239,472
Nedbank Direct banking Edenvale	-	-	806,448	229,831	119,412	766,467
Nedbank Income Edenvale	-	-	767,017	1,276,613	767,829	1,822,878
Nedbank Direct banking Germiston	-	-	3,206,066	544,693	303,113	3,206,066
Nedbank Income Germiston	-	-	3,386,422	3,475,843	3,850,161	6,229,948
Nedbank Dir banking Kempton Park	-	-	1,694,500	557,163	428,483	1,629,467
Nedbank Income Kempton Park	-	-	3,120,210	4,140,636	3,907,190	6,930,586
Nedbank direct banking Nigel	-	-	413,603	12,430,864	1,833,473	221,763
Nedbank Income Nigel	-	-	619,381	498,941	1,042,270	795,155
Nedbank Direct banking Springs	-	-	1,840,820	17,807,144	13,740,363	14,225,820
Nedbank Income Springs	-	-	14,225,820	9,718,294	1,940,538	3,025,441
Nedbank Library account	-	-	-	-	(72,858)	(85,770)
Nedbank IRPTN Bank 2 Funding 1119114845	1,275,565	1,199,314	-	1,275,565	1,199,314	-
Nedbank IRPTN Transport - collection 1120949068	4,933,524	324,298	-	4,933,524	324,298	-
Nedbank Salary account 1119114837	47,348,481	108,308,936	79,560,184	46,759,415	107,896,164	78,518,001
Nedbank Expenditure account 1119114829	347,259,153	317,520,367	144,740,321	230,632,761	271,007,922	94,832,121
Nedbank Treasury account 1119114810	1,247,583,105	218,446,048	1,397,123,715	1,205,074,449	190,596,582	1,397,123,715
Nedbank USDG account 1119114802	516,058,884	744,250,820	602,935,872	516,058,884	744,250,820	602,935,872
Nedbank Housing account 1119114799	512,883,693	40,991,016	49,486,602	512,883,693	40,991,016	49,486,602
Nedbank Depreciation Reserve account 1119114780	94,945,755	555,139,180	628,072,497	94,945,755	555,139,180	628,072,497
Nedbank External Funding Fund 1119114772	190,772,368	154,590,125	31,252,458	190,772,368	154,590,125	31,252,458
Nedbank Primary Bank account 1119114764	366,545,973	574,470,613	248,585,282	366,545,974	574,470,613	248,585,282
Nedbank Springs Market account 1119114853	1,099,925	1,427,188	1,420,209	1,099,925	1,427,188	660,365
Nedbank Traffic Fines account	-	-	406,025	118,174	135,669	406,025
Nedbank License account	-	-	5,722,870	3,161,616	2,823,129	5,722,870
Nedbank Disaster Relief Fund	-	-	1,584	-	-	1,584
Nedbank E-Siyakhokha	-	-	69,417	(338,014)	(54,695)	25,617
Nedbank Mask account 1104446634	(1,492,274)	100,322,524	272,298,004	(1,492,274)	100,325,450	272,186,670
Nedbank Pre paid account	-	-	5,845,535	-	-	5,845,536
Nedbank Solid Waste account	-	-	344,680	(255,863)	38,961	344,680
CoE Lease Account Nedbank	-	-	-	162,089	71,334	-
<b>Total</b>	<b>3,520,698,181</b>	<b>3,555,507,658</b>	<b>5,855,534,902</b>	<b>3,430,881,901</b>	<b>3,527,793,795</b>	<b>5,809,953,546</b>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>15. Long-term liabilities</b>		
<b>Designated at fair value</b>		
Bank loan - Nedbank	-	82,844,271
Interest rate - 10.78% per annum. Redemption period - December 2018.		
Bank loan - DBSA	2,000,000,000	-
Interest on the DBSA loans varies from 11.49% and 11.55%. The loans are unsecured. Capital will be repaid by means of a once-off bullet repayment at maturity of the loan, redemption date: May 2034.		
Bank loan - Nedbank	1,000,000,000	-
Interest rates on the loan is 10.27%. The loan is unsecured. The loan shall be repaid by not later than the termination date and shall be repaid in semi-annual instalments, redemption date: June 2034.		
Bank loan - ABSA	484,175,283	537,503,780
Interest rates on the loan is 10.68%. The loan is unsecured. The loans shall be repaid in semi-annual instalments. Redemption dates between February 2025 and May 2025.		
Municipal bonds	5,088,619,971	5,379,729,763
Interest rates on the JSE CoE bonds vary between 9.155% and 11.32 % per annum. Redemption dates on these bonds vary between July 2020 and July 2032.		
	<b>8,572,795,254</b>	<b>6,000,077,814</b>
<b>At amortised cost</b>		
Short term portion of long term liabilities	(448,592,208)	(502,569,199)
<b>Non-current liabilities</b>		
At amortised cost	8,124,203,045	5,497,508,614
<b>Current liabilities</b>		
At amortised cost	448,592,208	502,569,199

### Encumbered investments

Investments with a carrying value of R1,899,477,077 (2018:R1,617,372,812) are encumbered in respect of long term liabilities above with a carrying value of R2,415,000,000 (2018:R2,415,000,000) as disclosed in the other investments note (note 8). The amount of R2,415,000,000 consist of three bonds for which structured deposit sinking funds were established.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 16. Employee benefit obligations

#### 1. Retirement Funds

The City provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are expensed in the year in which they become payable. The City contributes to defined contribution and defined benefit funds. These funds are multi-employer funds.

The council took a resolution in terms of an agreement with SALGA that the contribution rate to pension funds will be capped at 18% of salaries for new members joining pension funds after 1 July 2012 and also that the deducted contribution will only be transferred to defined contribution pension funds.

#### Defined Contribution Funds

Where an employee has rendered services to the City during the year, the City recognises the contribution payable to a defined contribution plan in exchange for that service immediately as an expense.

#### Defined Benefit Plans

The City does not apply "defined benefit accounting" to the defined benefit funds to which it is a member where these funds are classified in terms of GRAP 25 as multi-employer plans, as sufficient information is not available to apply the principles involved. The City contributes to the following defined benefit plans, which are governed by the Pension Fund Act of 1956 due to the nature of these funds and the fact that there is no consistent and reliable basis for allocating the obligation. Plan assets and cost to individual entities participating in the plan, these funds are accounted for as defined contribution funds in terms of paragraph 31 of GRAP 25, the total contributions are included in employee related costs, Note 29. As a result, GRAP 25 is applied and such funds are accounted for as defined contribution funds. The City's participation in these plans is limited to the obligation of its own employees. Due to the nature of the funds, the obligation for each fund cannot be reasonably determined.

The following funds have been treated as defined contribution plans although they are defined benefit funds:

#### 1. Joint Municipal Pension Fund

The average contribution rate payable is 7.5% by the members and on average 22% by the City of Ekurhuleni. The last actuarial valuation on this fund was performed in March 2018 certified that the fund is in a sound financial state. The City of Ekurhuleni has 94 employees in this plan.

#### 2. Municipal Employees Pension Fund

The average contribution rate payable is 7.5% by the members. The City of Ekurhuleni contributes 22% and 18% of members who existed as at 30 June 2012 and 01 July 2012, respectively. The last actuarial valuation on this fund was performed in February 2017 and it was certified that the fund is in a sound financial state. The City of Ekurhuleni has 1350 employees in this plan.

#### 3. South African Local Authorities Pension Fund

The average contribution rate payable is 9% by the members and on average 20.78% by the City of Ekurhuleni. The last actuarial valuation on this fund was performed as at 1 July 2015 and it was certified that the fund is in a sound financial state. The City of Ekurhuleni has 82 employees in this plan.

Germiston Municipal Retirement Fund (GMRF) is a defined contribution fund for active contributing members but a defined benefit fund for certain pensioners under the old rules taken in the rules of the fund. During 2005 GMRF outsourced the full administration of the pensioners component which relates to the old rules of the defined benefit fund.

To the extent that a surplus or deficit is in place, based on available information, this may affect the amount of future contributions once these are assessed. In the case of surpluses, no change is made in the rate of contributions. In the case of deficits, the City will increase contributions on a phased basis. To the extent that the full discounted value of obligations to the funds is not fully accounted for at year end, a contingent liability arises and is reported on accordingly.

#### 2. Accrued Leave Pay

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total accrued leave days at year end.

Refer to provisions note (note 17) for leave pay provision.

#### Retirement benefit obligation (medical aid plan)

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 16. Employee benefit obligations (continued)

The City provides post-retirement benefits by subsidising the medical aid contributions of certain retired staff. According to the rules of the medical aid funds, with which the City is associated, a member (subject to the applicable conditions of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for the portion as determined by Council from time to time, of the medical aid membership fee, and the City for the remaining portion.

The number of employees who are eligible for post-retirement benefits as at 30 June 2019 are 12,142 (2018: 12,056) in-service employees and 1,863 (2018: 1,859) pensioners. The actuarial valuation was performed by Zaqen Actuaries (Pty) Ltd by applying the Projected Unit Funding method.

#### Pension benefits

The amounts recognised in the statement of financial position are as follows:

Present value of the defined benefit obligation-wholly unfunded	(2,058,871,581)	(1,954,081,581)
-----------------------------------------------------------------	-----------------	-----------------

#### Movements for the year

Benefits paid	94,006,442	95,532,198
Net expense recognised in the statement of financial performance	(198,796,442)	152,871,284
	<b>(2,058,871,581)</b>	<b>(1,954,081,581)</b>

#### Net expense recognised in the statement of financial performance

Current service cost	(56,847,000)	(82,666,797)
Interest cost	(192,321,000)	(195,873,790)
Actuarial gains	50,371,558	431,411,871
	<b>(198,796,442)</b>	<b>152,871,284</b>

#### Key assumptions used

Assumptions used on last valuation on Friday, 28 June 2019.

Discount rates used (controlling entity)	8.00 %	9.78 %
Health care cost inflation rate (controlling entity)	5.96 %	7.67 %

#### Other assumptions:

##### Key Demographic Assumptions

Assumption	Value		
Average retirement age for the City	63		
Continuation of membership at retirement	90%		
Proportion assumed married at retirement	90%		
Mortality tables	SA 85/90		
Mortality post-retirement for pensioners	PA90		
Withdrawal from service	Age	Males	Females
	20 - 24	16%	24%
	25 - 29	12%	18%
	30 - 34	10%	15%
	35 - 39	8%	10%
	40 - 44	6%	6%
	45 - 49	4%	4%
	50 - 54	2%	2%
	55 - 59	1%	1%
	60 +	0%	0%



# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 16. Employee benefit obligations (continued)

#### Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in the statement of financial performance. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Medical inflation (service cost and interest cost)	270,421,000	251,382,000
Medical inflation (liability)	2,132,454,000	1,974,812,000
Valuation interest rate (service cost and interest cost)	270,101,000	254,082,000
Valuation interest rate (liability)	1,946,868,000	2,174,168,000

	2019 R	2018 R	2017 R	2016 R	2015 R
Defined benefit obligation	(2,058,871,581)	(1,954,081,581)	(2,202,485,063)	(2,527,235,581)	(2,049,898,581)
Deficit	(2,058,871,581)	(1,954,081,581)	(2,202,485,063)	(2,527,235,581)	(2,049,898,581)
Experience adjustments on plan	(18,863,000)	(128,639,000)	(234,450,000)	(271,494,000)	16,924,000

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 17. Provisions

#### Reconciliation of provisions - 2019

	Opening Balance	Additions	Utilised during the year	Increased during the year	Change in discount factor	Total
COLD provision	31,337,074	154,889	(1,902,700)	-	-	29,589,263
Bonus provision	80,597,388	21,807,050	(40,882,414)	-	-	61,522,024
Leave provision	500,255,652	233,840,546	(222,715,572)	-	-	511,380,626
Landfill rehabilitation provision	348,631,220	-	(30,999,156)	-	37,227,305	354,859,369
Long service awards	466,339,000	34,874,000	(6,959,789)	(39,220,211)	45,818,000	500,851,000
GMRF	13,034,576	-	(13,034,576)	-	-	-
	<b>1,440,194,910</b>	<b>290,676,485</b>	<b>(316,494,207)</b>	<b>(39,220,211)</b>	<b>83,045,305</b>	<b>1,458,202,282</b>

#### Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Increased during the year	Change in discount factor	Total
COLD provision	29,524,857	3,762,880	(1,950,663)	-	-	31,337,074
Bonus provision	55,777,169	25,778,287	(958,068)	-	-	80,597,388
Leave provision	421,594,320	150,536,712	(71,875,380)	-	-	500,255,652
Landfill rehabilitation provision	326,110,340	(38,801,607)	-	-	61,322,487	348,631,220
WCA provision	-	34,878,848	(39,765,310)	4,886,462	-	-
Long service awards	410,124,595	39,485,628	(8,804,169)	(6,198,324)	31,731,270	466,339,000
GMRF	-	13,034,576	-	-	-	13,034,576
	<b>1,243,131,281</b>	<b>228,675,324</b>	<b>(123,353,590)</b>	<b>(1,311,862)</b>	<b>93,053,757</b>	<b>1,440,194,910</b>

Non-current liabilities	885,299,632	846,307,294
Current liabilities	572,902,650	593,887,616
	<b>1,458,202,282</b>	<b>1,440,194,910</b>

#### GMRF provision

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 17. Provisions (continued)

The provision relates to claims against the City, instituted by the Germiston Municipal Retirement Fund in terms of the rules of the pension fund where the required investment yield was not being achieved. The timing of the outflow is uncertain, as well as the relating amount due to interest charges.

#### COLD provision

This provision is made for future expected outflows as a result of the City's obligation to contribute towards occupational injuries with various employees in the old Benoni and Germiston local municipalities. The discount rate used in determining the present value of the obligation is 10.68% (2018:10.52%) and the inflation assumption used for the increase in expenses/contributions is 6.5% (2018: 7.00%).

#### Leave and bonus provision

The liability is based on the total accrued leave days at year end. A section 57 bonus provision is also provided for. The bonus is performance based, and is dependant on a performance assessment. The timing of both the leave and bonus is uncertain.

#### Landfill rehabilitation provision

In terms of GRAP 19, provisions should be evaluated at each year-end to reflect the best estimate at that date of the provision. The discounting rate is 10.68% (2018:10.52%). The timing of outflow is uncertain, as well as relating amounts due to discounting and charges in inflation rates.

The net result of the re-estimation had the following effect on the current year amounts:

Decrease in the cost of property, plant and equipment R13,791,164 (2018: decrease of R18,508,148)

Amount recognised in profit and loss due to re-estimation where the adjustment exceeded the carrying amount of the asset by R13,791,164 (2018: R18,508,148)

#### Long service awards provision

An actuarial valuation for 2019 was performed by Zaqen Actuaries (Pty) Ltd.

Discount rate used: 8.00% (2018: 9.35%)

CPI used: 4.96% (2018: 6.17%)

Salary increase rate used: 6.5% (2018: 7.00%)

### 18. Trade and other payables from exchange transactions

Accrual for interest on external loans	108,553,403	91,648,478
Straight lining leases	-	11,444
Licence fees	13,433,371	14,914,694
Maintenance guarantees: new township development infrastructure	5,018,577	4,851,026
VAT balance on outstanding debtors	603,741,857	565,111,662
Other payables	290,375,892	206,034,737
Receipts in advance	568,344,906	625,427,713
Retentions	882,428,396	695,235,441
Trade payables	5,135,806,793	4,848,305,160
Unclaimed salaries	8,166,400	7,553,098
	<b>7,615,869,595</b>	<b>7,059,093,453</b>

### 19. Deposits

Consumer deposits - electricity and water	916,990,548	866,331,112
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Guarantees in lieu of electricity and water deposits is R143,827,981 (2018:R124,075,216).

### 20. Unspent conditional grants and receipts

The unspent conditional grant and receipts relates to funds received for multi-year capital projects for which the funds are not yet spent at year end, other than that the conditions were met.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 20. Unspent conditional grants and receipts (continued)

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

HIV/AIDS	761	-
FMG	396,077	-
SETA	4,729,237	-
USDG	290,862,219	314,723,641
EPWP	-	94,962
HSDG Accreditation	505,738,586	19,999,371
Electricity demand side management	9,705	107
INEP	8,302,337	-
NDPG	5,304,228	6,147,792
PTNG	143,893,542	234,939,914
Libraries	614,421	1,114,864
	<b>959,851,113</b>	<b>577,020,651</b>

#### Movement during the period

Balance at the beginning of the year	577,020,651	113,408,897
Additions during the year	8,354,903,091	7,826,158,814
Income recognition during the year	(7,724,271,767)	(7,262,341,924)
Appropriations	(247,800,862)	(100,205,136)
	<b>959,851,113</b>	<b>577,020,651</b>

See note 26 for reconciliation of all grants.

### 21. Financial instruments disclosure

#### Categories of financial instruments

#### 2019

##### Financial assets

	At amortised cost	At cost	Total
Trade and other receivables from exchange transactions	5,851,523,039	-	5,851,523,039
Other receivables from non-exchange transactions	37,084,479	-	37,084,479
Cash and cash equivalents	3,430,881,905	-	3,430,881,905
Other investments (listed and unlisted shares)	-	4,000,000	4,000,000
Other investments	2,085,662,813	-	2,085,662,813
Long term receivables	3,329,215	-	3,329,215
	<b>11,408,481,451</b>	<b>4,000,000</b>	<b>11,412,481,451</b>

##### Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	6,435,616,432	6,435,616,432
Long term liabilities	8,572,795,253	8,572,795,253
Consumer deposits	916,990,548	916,990,548
	<b>15,925,402,233</b>	<b>15,925,402,233</b>

#### 2018

##### Financial assets

	At amortised cost	At cost	Total
Other receivables from non-exchange transactions	4,998,335,598	-	4,998,335,598
Consumer debtors	11,145,858	-	11,145,858
Cash and cash equivalents	3,527,793,794	-	3,527,793,794
Other investments (listed and unlisted shares)	-	4,000,000	4,000,000
Other investments	2,168,786,678	-	2,168,786,678

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### Financial instruments disclosure (continued)

Long term receivables	3,317,824	-	3,317,824
	<b>10,709,379,752</b>	<b>4,000,000</b>	<b>10,713,379,752</b>

### Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	5,939,055,352	5,939,055,352
Long term liabilities	6,000,077,815	6,000,077,815
Consumer deposits	866,331,112	866,331,112
	<b>12,805,464,279</b>	<b>12,805,464,279</b>

### Financial instruments in Statement of financial performance

#### 2019

	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	786,635,124	786,635,124
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(891,518,673)	(891,518,673)
Impairment loss	(2,467,518,785)	(2,467,518,785)
	<b>(2,572,402,334)</b>	<b>(2,572,402,334)</b>

#### 2018

	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	892,829,790	892,829,790
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(921,399,008)	(921,399,008)
Impairment loss	(2,539,949,440)	(2,539,949,440)
	<b>(2,568,518,658)</b>	<b>(2,568,518,658)</b>

### 22. Revenue

Service charges	21,153,924,617	18,930,199,028
Rental of facilities and equipment	76,002,723	73,356,530
Interest earned - outstanding debtors	393,388,972	279,018,363
Income from agency services	305,156,458	293,198,719
Licences and permits	43,989,029	54,880,804
Other income	235,914,589	331,051,726
Interest revenue	393,246,152	613,811,427
Property rates	5,395,430,732	5,200,065,019
Property rates - penalties and collection charges	83,532,438	57,700,398
Government grants & subsidies	7,724,271,767	7,262,341,924
Public contributions and donations	29,628,665	593,441,274
Fines	348,667,339	334,253,645
	<b>36,183,153,481</b>	<b>34,023,318,857</b>

### The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	21,153,924,617	18,930,199,028
Rental of facilities and equipment	76,002,723	73,356,530
Interest earned - outstanding debtors	393,388,972	279,018,363
Income from agency services	305,156,458	293,198,719
Licences and permits	43,989,029	54,880,804
Other income	235,914,589	331,051,726
Interest revenue	393,246,152	613,811,427
	<b>22,601,622,540</b>	<b>20,575,516,597</b>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 22. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:

<b>Taxation revenue</b>		
Property rates	5,395,430,732	5,200,065,019
Property rates - penalties and collection charges	83,532,438	57,700,398
<b>Transfer revenue</b>		
Government grants & subsidies	7,724,271,767	7,262,341,924
Public contributions and donations	29,628,665	593,441,274
Fines	348,667,339	334,253,645
	<b>13,581,530,941</b>	<b>13,447,802,260</b>

### 23. Property rates

#### Rates received

Residential	2,313,067,619	2,146,318,186
Commercial	2,756,052,550	2,701,578,671
Small holdings and farms	14,028,730	20,895,166
Vacant land	277,465,046	289,449,137
Other properties	34,816,787	41,823,860
Property rates - penalties and collection charges	83,532,438	57,700,398
	<b>5,478,963,170</b>	<b>5,257,765,418</b>

#### Valuations (R'000)

Residential	307,436,088	305,154,346
Commercial	123,771,447	130,808,271
Provincial and National Government	6,645,259	6,674,767
Municipal	4,228,875	3,846,722
Small holdings and farms	6,552,932	6,529,218
Sectional title	54,898,919	52,979,688
Vacant land	13,103,817	12,863,892
Other	25,419,978	26,301,060
	<b>542,057,315</b>	<b>545,157,964</b>

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2017. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on a monthly basis, interest is levied on outstanding account if paid after due date.

### 24. Service charges

Sale of electricity	13,857,573,322	12,808,617,903
Sale of water	4,428,833,210	3,699,416,598
Solid waste	1,317,984,027	1,188,710,317
Sewerage and sanitation charges	1,476,648,437	1,167,180,772
Fresh produce market	22,298,167	20,863,367
Other service charges	50,587,454	45,410,071
	<b>21,153,924,617</b>	<b>18,930,199,028</b>

### 25. Rental of facilities and equipment

#### Facilities and equipment

Rental of facilities	75,980,706	73,332,842
Rental of equipment	22,017	23,688
	<b>76,002,723</b>	<b>73,356,530</b>
	<b>76,002,723</b>	<b>73,356,530</b>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 25. Rental of facilities and equipment (continued)

Included in the above rentals are operating lease rentals at straight-lined amounts of R7,484,051 (2018: R7,160,238) as well as month to month rentals of R30,999,472 (2018: R22,584,408).

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>26. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	3,145,138,000	2,719,861,000
Fuel levy	1,734,629,000	1,694,256,000
Emergency Management Services (EMS)	167,328,000	158,155,000
Finance Management Grant (FMG)	603,923	1,049,999
HIV/AIDS	13,977,475	13,236,906
Libraries plan	4,592,008	4,875,799
Sector Education and Training Authority (Seta)	9,452,848	10,796,748
Bontle Ke Batho (BKB)	-	16,206
Primary Health Care (PHC)	137,900,000	130,340,000
Human Settlements Development Grant (HSDG) Accreditation	11,602,555	31,203,789
Electricity Demand Side Management(EEDSM)	161,715	-
Urban Settlements Development Grant (USDG)	228,677,893	333,430,102
Public Transport Network Grant (PTNG)	177,944,897	119,214,670
Expanded Public Works Programme (EPWP)	25,054,000	44,623,038
	<b>5,657,062,314</b>	<b>5,261,059,257</b>
<b>Capital grants</b>		
Integrated National Electrification Programme (INEP)	36,697,663	40,000,000
Urban Settlements Development Grant (USDG)	1,624,658,529	1,448,954,007
Public Transport Network Grant (PTNG)	282,801,560	346,563,416
Electricity Demand Site Management(EEDSM)	13,828,580	12,000,000
WiFi Connectivity roll out	-	201,078
Recapitalisation of community libraries	8,990,349	8,491,958
Integrated city development(ICDG)	45,537,000	48,646,000
Neighbourhood Development Partnership Grant (NDPG)	54,695,772	96,426,208
	<b>2,067,209,453</b>	<b>2,001,282,667</b>
	<b>7,724,271,767</b>	<b>7,262,341,924</b>
<b>Equitable share</b>		
Current-year receipts	3,145,138,000	2,719,861,000
Conditions met - transferred to revenue	(3,145,138,000)	(2,719,861,000)
	<b>-</b>	<b>-</b>
<b>Fuel levy</b>		
Current-year receipts	1,734,629,000	1,694,256,000
Conditions met - transferred to revenue	(1,734,629,000)	(1,694,256,000)
	<b>-</b>	<b>-</b>
<b>Emergency Management Services</b>		
Current-year receipts	167,328,000	158,155,000
Conditions met - transferred to revenue	(167,328,000)	(158,155,000)
	<b>-</b>	<b>-</b>
<b>Finance Management Grant</b>		
Current-year receipts	1,000,000	1,050,000
Conditions met - transferred to revenue	(603,923)	(1,050,000)
	<b>-</b>	<b>-</b>
	<b>396,077</b>	<b>-</b>
<b>Hiv/Aids</b>		
Current-year receipts	13,978,235	13,236,906
Conditions met - transferred to revenue	(13,977,475)	(13,236,906)



# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>26. Government grants and subsidies (continued)</b>		
	<b>760</b>	<b>-</b>
<b>Libraries</b>		
Balance unspent at beginning of year	1,114,863	888,620
Current-year receipts	13,700,000	13,594,000
Conditions met - transferred to revenue	(13,582,357)	(13,367,757)
Surrendered/Appropriated	(618,085)	-
	<b>614,421</b>	<b>1,114,863</b>
<b>Seta</b>		
Current-year receipts	14,182,085	10,796,748
Conditions met - transferred to revenue	(9,452,848)	(10,796,748)
	<b>4,729,237</b>	<b>-</b>
<b>BKB</b>		
Balance unspent at beginning of year	-	16,207
Conditions met - transferred to revenue	-	(16,207)
	<b>-</b>	<b>-</b>
<b>Primary Health Care (PHC)</b>		
Current-year receipts	137,900,000	130,340,000
Conditions met - transferred to revenue	(137,900,000)	(130,340,000)
	<b>-</b>	<b>-</b>
<b>INEP</b>		
Current-year receipts	45,000,000	40,000,000
Conditions met - transferred to revenue	(36,697,663)	(40,000,000)
	<b>8,302,337</b>	<b>-</b>
<b>Integrated City Development</b>		
Balance unspent at beginning of year	-	572,427
Current-year receipts	45,537,000	48,646,000
Conditions met - transferred to revenue	(45,537,000)	(48,646,000)
Surrendered/Appropriated	-	(572,427)
	<b>-</b>	<b>-</b>
<b>PTNG</b>		
Balance unspent at beginning of year	234,939,914	29,884,181
Current-year receipts	604,640,000	700,718,000
Conditions met - transferred to revenue	(460,746,457)	(465,778,086)
Surrendered/Appropriated	(234,939,914)	(29,884,181)
	<b>143,893,543</b>	<b>234,939,914</b>
Conditions still to be met - remain liabilities (see note 20).		
<b>Electricity Demand Site Management</b>		
Balance unspent at beginning of year	108	108
Current-year receipts	14,000,000	12,000,000
Conditions met - transferred to revenue	(13,990,295)	(12,000,000)

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>26. Government grants and subsidies (continued)</b>		
Surrendered/Appropriated	(108)	-
	<b>9,705</b>	<b>108</b>
Conditions still to be met - remain liabilities (see note 20).		
<b>Municipal Human Settlements Capacity</b>		
<b>USDG</b>		
Balance unspent at beginning of year	314,723,641	21,713,359
Current-year receipts	1,835,475,000	2,085,010,000
Conditions met - transferred to revenue	(1,853,336,422)	(1,782,384,108)
Surrendered/Appropriated	(6,000,000)	(9,615,610)
	<b>290,862,219</b>	<b>314,723,641</b>
Conditions still to be met - remain liabilities (see note 20).		
<b>EPWP</b>		
Balance unspent at beginning of year	94,962	2,076
Current-year receipts	25,054,000	44,718,000
Conditions met - transferred to revenue	(25,054,000)	(44,623,038)
Surrendered/Appropriated	(94,962)	(2,076)
	<b>-</b>	<b>94,962</b>
Conditions still to be met - remain liabilities (see note 20).		
<b>NDPG</b>		
Balance unspent at beginning of year	6,147,792	29,145,705
Current-year receipts	60,000,000	102,574,000
Conditions met - transferred to revenue	(54,695,772)	(96,426,208)
Surrendered/Appropriated	(6,147,793)	(29,145,705)
	<b>5,304,227</b>	<b>6,147,792</b>
Conditions still to be met - remain liabilities (see note 20).		
<b>HSDG Accreditation</b>		
Balance unspent at beginning of year	19,999,371	30,976,363
Current-year receipts	497,341,770	51,203,160
Conditions met - transferred to revenue	(11,602,555)	(31,203,789)
Surrendered/Appropriated	-	(30,976,363)
	<b>505,738,586</b>	<b>19,999,371</b>
Conditions still to be met - remain liabilities (see note 20).		
<b>Research and Technology</b>		
<b>Disaster Grant</b>		
Balance unspent at beginning of year	-	8,773
Surrendered/Appropriated	-	(8,773)
	<b>-</b>	<b>-</b>
<b>WIFI Connectivity Roll Out</b>		

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>26. Government grants and subsidies (continued)</b>		
Balance unspent at beginning of year	-	201,079
Conditions met - transferred to revenue	-	(201,079)
	-	-
<b>27. Interest revenue</b>		
<b>Interest revenue</b>		
Bank	222,921,150	313,094,119
External investments	170,325,002	300,717,308
	<b>393,246,152</b>	<b>613,811,427</b>
<b>28. Other income</b>		
Accident reports	1,108,415	1,157,288
Administration fees	131,043	127,909
Cleaning of stands	430,499	244,356
Entry fees	305,549	434,083
Essential services contributions	85,406,447	84,027,872
Printing and copying of documents	1,194,349	1,003,340
Sundry income	146,071,967	242,418,524
Supply of information	575,827	372,610
Tender documents	585,190	219,600
Training	105,303	1,046,144
	<b>235,914,589</b>	<b>331,051,726</b>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>29. Employee related costs</b>		
Basic	4,805,441,449	4,504,966,956
Bonus	358,772,026	347,770,074
Medical aid - company contributions	452,706,419	458,471,954
Unemployment Insurance Fund	31,672,304	31,388,917
Workmens Compensation	49,665,334	46,275,379
Skills Development Levy	67,116,589	60,852,332
Other payroll levies	1,822,434	1,749,674
Leave pay provision charge	233,723,324	150,799,564
Current service costs	91,721,000	-
Standby Allowances	58,035,929	44,367,022
Defined contributions plans expenses	(89,591,769)	(356,825,478)
Defined contribution plans	917,262,193	815,780,757
Travel, motor car, accommodation, subsistence and other allowances	232,704,454	232,593,033
Overtime payments	824,699,493	763,954,914
Long-service awards	(56,628,523)	8,804,169
Acting allowances	88,514,309	70,036,135
Housing benefits and allowances	60,718,519	55,337,017
Allowances	19,475,516	20,231,756
Less: employee costs capitalised to property, plant and equipment	(28,309,679)	(22,637,736)
	<b>8,119,521,321</b>	<b>7,233,916,439</b>

Senior Management Remuneration (Key Management) for the period ended 30 June 2019	Basic Salary per annum	Pension, Medical & UIF per annum	Car Allowance	Performance Bonus	Other	Total
City Manager	3,182,420	68,025	154,528	104,704	55,200	3,564,877
Chief Operating Officer (Contract end 30/11/2016)	-	-	-	70,336	-	70,336
Chief Operating Officer	2,155,152	358,185	165,636	-	43,200	2,722,173
Chief Financial Officer (Contract end 26/03/2019)	2,189,077	96,781	120,000	-	43,200	2,449,058
Chief Financial Officer (Appointed 01/06/2019)	201,773	149	15,000	-	3,600	220,522
Chief Financial Officer (Acting from 30/10/2018)	762,153	1,041	105,000	-	109,293	977,487
Head of Department: Internal Audit (Vacant from 1/08/2017)	-	-	-	116,703	-	116,703
Head of Department: Internal Audit (Appointed 01/03/2019)	784,150	53,685	30,000	-	14,400	882,235
Head of Department: Internal Audit (Acting from 01/07/2018 )	765,532	73,190	160,000	-	180,757	1,179,479
Head of Department :Electricity & Energy	2,053,315	179,098	276,340	161,007	213,420	2,883,180
Head of Department: Strategy & corporate planning	1,731,495	214,446	170,820	49,908	43,200	2,209,869
Head of Department : Health	1,360,367	120,585	80,000	123,713	32,400	1,717,065
Head of Department:Customer Relations Management(Vacant from 1/09/2017)	-	-	-	134,960	-	134,960
Head of Department : Corporate Legal	2,391,180	131,385	120,000	220,090	43,200	2,905,855
Head of Department: Communication	1,817,989	150,020	120,000	100,399	43,200	2,231,608
Head of Department : Human Resource	2,232,771	77,385	96,000	-	43,200	2,449,356
Head of Department : Sport, Recreation, Arts and Culture (SRAC)	2,006,976	1,785	108,000	108,698	43,200	2,268,659
Head of Department : City Development(Vacant from 01/03/2019)	1,109,924	122,082	160,000	106,413	26,400	1,524,819
Head of Department : City Development(appointed 01/06/2019)	171,250	149	-	-	3,600	174,999
Head of Department : Community Safety(Contract expired 28/02/2017)	-	-	-	84,506	-	84,506
Head of Department: Human Settlement (Vacant from 01/03/2019)	1,223,744	64,410	104,000	103,604	28,800	1,524,558

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand					2019	2018
<b>29. Employee related costs (continued)</b>						
Head of Department: Human Settlement (Appointed 01/06/2019)	221,333	149	12,000	-	3,600	237,082
Head of Department: Economic Development	2,305,404	1,785	180,000	130,277	43,200	2,660,666
Head of Department : ICT	1,779,165	128,844	180,000	-	43,200	2,131,209
Head of Department : Transport (Acting from 06/03/2018)	1,633,740	73,785	120,000	-	150,301	1,977,826
Head of Department : Transport(vacant 01/12/2018)	806,240	744	75,000	-	18,000	899,984
Head of Department : Environment (Vacant 01/07/2017)	-	-	-	115,953	-	115,953
Head of Department : Environment (Appointed 01/08/2018)	1,857,752	1,636	26,000	-	39,600	1,924,988
Head : Enterprise Project Management	1,911,261	1,785	132,000	125,038	43,200	2,213,284
Head of Department: Real Estate and Facilities (Appointed 01/01/2019)	979,503	1,041	48,000	118,574	21,600	1,168,718
Head of Department ; Roads and Transport	1,796,533	69,578	200,000	130,124	34,800	2,231,035
Head of Department : Water and Sanitation	1,783,776	152,985	180,000	59,486	43,200	2,219,447
Head of Department:Fleet	695,408	744	-	-	13,200	709,352
Chief Risk Officer(Vacant 01/11/2018)	-	149	-	94,332	-	94,481
Chief of Police	1,887,436	100,148	129,176	-	43,200	2,159,960
Secretary of Council	1,587,000	260,985	132,000	-	312,000	2,291,985
Head of Department	2,114,976	1,785	-	-	43,200	2,159,961
Subtotal	47,498,795	2,508,544	3,399,500	2,258,825	1,822,571	57,488,235
	<b>47,498,795</b>	<b>2,508,544</b>	<b>3,399,500</b>	<b>2,258,825</b>	<b>1,822,571</b>	<b>57,488,235</b>
<b>Senior Management Remuneration (Key Management) for period ended 30 June 2018</b>						
	Basic Salary per annum	Pension, Medical & UIF per annum	Car Allowance	Performance Bonus	Other	Total
City Manager	2,959,772	68,025	154,528	-	55,200	3,237,525
Chief Operating Officer	2,018,026	328,485	151,833	-	43,200	2,541,544
Chief Financial Officer	1,702,661	128,844	120,000	-	43,200	1,994,705
Head of Department: Internal Audit(Vacant from 1/08/2017)	138,528	13,797	10,000	-	3,600	165,925
Head of Department :Electricity & Energy	1,880,741	176,520	276,340	-	213,420	2,547,021
Head of Department: Strategy & Corporate Planning	1,664,298	214,446	99,645	-	43,200	2,021,589
Head of Department: Health	1,667,720	163,785	120,000	-	43,200	1,994,705
Head of Department: Customer Relations Management(Vacant from 1/09/2017)	532,161	297	30,000	-	10,800	573,258
Head of Department: Corporate & Legal	2,113,981	131,533	120,000	-	43,200	2,408,714
Head of Department: Communication	1,686,779	144,726	120,000	-	43,200	1,994,705
Head of Department:Human Resources(Appointd 1/08/2017)	1,434,848	70,780	80,000	-	35,100	1,620,728
Head of Department: SRAC	1,868,604	1,785	108,000	90,906	43,200	2,112,495
Head of Department : City Development	1,528,382	183,122	240,000	-	39,600	1,991,104
Head of Department : Community Safety(Appointed 1/12/2017)	955,128	108,693	74,557	-	25,200	1,163,578
Head of Department : Community Safety(Contract expired 01/02/2017)	-	-	-	121,388	-	121,388
Head of Department : Human Settlement	1,699,112	96,393	156,000	-	43,200	1,994,705
Head of Department : Economic Development	2,142,804	1,785	180,000	-	43,200	2,367,789
Head of Department : ICT	1,642,662	128,844	180,000	-	43,200	1,994,706
Head of Department : Transport	1,796,604	1,785	180,000	-	43,200	2,021,589
Head of Department : Solid Waste(Vacant 01/02/2017)	-	-	-	89,151	-	89,151

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand					2019	2018
<b>29. Employee related costs (continued)</b>						
Head of Department : Enterprise Project Management	1,292,792	1,338	96,000	-	28,800	1,418,930
Head of Department : Real Estate and Facilities	1,809,756	109,784	96,000	-	43,200	2,058,740
Head of Department : Roads and Transport	1,901,604	1,785	240,000	-	39,600	2,182,989
Head of Department : Water Services	1,645,404	152,985	180,000	-	43,200	2,021,589
Head of Department : Water Services(Resigned 30/06/2016)	-	-	-	135,226	-	135,226
Head of Department :Fleet	1,949,720	1,785	-	-	39,600	1,991,105
Chief Risk Officer(Vacant 01/01/2018)	884,860	1,041	90,000	-	21,600	997,501
Chief of Police	1,749,064	100,148	129,176	-	43,200	2,021,588
Secretary of Council	1,475,000	152,985	132,000	-	385,000	2,144,985
Subtotal	42,141,011	2,485,496	3,364,079	436,671	1,502,320	49,929,577
	<b>42,141,011</b>	<b>2,485,496</b>	<b>3,364,079</b>	<b>436,671</b>	<b>1,502,320</b>	<b>49,929,577</b>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 30. Remuneration of councillors

#### In-kind benefits

The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor has use of a Council owned vehicle for official duties.

The Executive Mayor has full-time bodyguards.

The salaries, allowances and benefits of councillors are within the upper limits of the framework envisaged in section 219 of the Constitution of South Africa.

#### Related parties

Refer to note 42 for related party relationships.

June 2019	Salaries	Travel allowance	Housing allowance	Pension & Medical	Cell phone allowance	Total
Executive Mayor	1,242,409	-	107,841	-	40,800	1,391,050
Speaker	439,602	173,739	411,206	65,940	40,800	1,131,287
Chief Whip	940,680	-	86,543	-	40,800	1,068,023
Members of the Mayoral Committee	3,758,685	812,777	5,057,159	422,701	399,226	10,450,548
Chairpersons Section 79 Members	5,182,543	1,042,652	9,972,435	645,686	692,813	17,536,129
Other councillors	46,837,164	7,683,826	40,012,246	3,397,182	8,428,512	106,358,930
	<b>58,401,083</b>	<b>9,712,994</b>	<b>55,647,430</b>	<b>4,531,509</b>	<b>9,642,951</b>	<b>137,935,967</b>

June 2018	Salaries	Travel allowance	Housing allowance	Pension & Medical	Cell phone allowance	Total
Executive Mayor	1,242,409	-	55,908	-	40,800	1,339,117
Speaker	439,602	173,739	369,389	65,940	40,800	1,089,470
Chief Whip	940,680	-	47,034	-	40,800	1,028,514
Members of the Mayoral Committee	3,852,056	455,334	5,133,045	436,706	408,000	10,285,141
Chairpersons Section 79 Members	5,227,704	800,846	9,617,572	652,460	693,600	16,992,182
Other councillors	45,740,611	6,452,088	38,638,132	3,241,146	7,893,498	101,965,475
<b>Total</b>	<b>57,443,062</b>	<b>7,882,007</b>	<b>53,861,080</b>	<b>4,396,252</b>	<b>9,117,498</b>	<b>132,699,899</b>

### 31. Depreciation and amortisation

Property, plant and equipment	2,260,045,778	2,174,985,423
Investment property	7,685,447	7,235,025
Intangible assets	134,506,161	51,903,102
	<b>2,402,237,386</b>	<b>2,234,123,550</b>

### 32. Impairments of assets

#### Impairments

Derecognition of property, plant and equipment	52,845,249	171,692,345
Derecognition of intangible assets	35,613,857	-
	<b>88,459,106</b>	<b>171,692,345</b>

### 33. Finance costs

External borrowings	616,104,617	529,230,906
Trade and other payables	47,751	7,127,212
Unwinding of interest on provisions and obligations	275,366,305	385,040,890
	<b>891,518,673</b>	<b>921,399,008</b>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>34. Debt impairment</b>		
Bad debts written off	5,734,031,525	599,563,140
Contribution to the debt impairment	2,524,365,481	1,464,826,053
Less: Bad debts written off against the provision	(5,734,031,525)	(599,563,140)
	<b>2,524,365,481</b>	<b>1,464,826,053</b>
<b>35. Bulk purchases</b>		
Electricity	10,011,833,963	9,310,647,314
Water	3,347,272,578	2,934,764,481
Sewer purification	766,559,864	696,872,604
	<b>14,125,666,405</b>	<b>12,942,284,399</b>
<b>36. Auditors' remuneration</b>		
External audit fees	22,416,622	23,764,008
<b>37. Contracted services</b>		
Security contracts	445,936,883	372,736,668
Meter management contracts	199,891,106	202,652,053
Environment contracts	317,112,766	283,290,319
Professional services	1,506,956,145	487,075,958
	<b>2,469,896,900</b>	<b>1,345,754,998</b>
<b>38. Grants and subsidies paid</b>		
<b>Other subsidies</b>		
Discretionary grant: sport and social support	60,306,103	108,619,016
Subsidy: Society for the Prevention of Cruelty to Animals (SPCA)	2,896,943	3,368,675
Discretionary grant: general	1,002,134,473	874,165,264
Excess consumption and other grants paid	647,235,587	612,316,665
Grants: education (external)	95,502,769	127,931,554
	<b>1,808,075,875</b>	<b>1,726,401,174</b>



# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>39. General expenses</b>		
Advertising	22,060,331	38,462,756
Animal care	2,181,926	3,995,868
Auditors remuneration	22,416,622	23,764,008
Awareness campaigns	8,469,816	23,651,573
Bank charges	88,253,171	9,749,585
Community development and wellbeing	24,051,803	16,532,854
Consulting and professional fees	172,966,963	203,715,686
Consumables (including materials)	36,801,443	106,332,484
Corporate Gifts	368,423	782,925
Disaster management	436,377	384,207
Entertainment	100,165	221,361
Fuel and oil	194,222,133	165,175,814
Human resource management	5,444,444	12,421,252
IT expenses	38,743,476	48,729,713
Insurance	95,549,818	73,526,789
Land management	52,937,504	37,826,932
Magazines, books and periodicals	1,334,582	1,133,576
Marketing	65,401,647	119,104,465
Postage	31,641,043	28,388,279
Printing and Stationary	36,006,031	48,548,865
Productions	44,798	49,650
Refreshments	5,841,349	8,970,189
Refuse	16,684,854	31,760,331
Rental	30,603,740	33,529,645
Repairs and maintenance costs and operating expenses	1,934,407,023	2,678,889,272
Rodent control	10,213,999	9,157,990
Service connections	21,242,401	257,720,649
Software expenses	21,464	1,236,779
Subscriptions and membership fees	13,862,134	13,418,597
Telephone and fax	37,697,119	39,809,366
Title deed search fees	724,028	915,645
Training	110,503,534	22,821,532
Travel - local	2,736,055	2,107,339
Travel - overseas	930,843	5,082,959
Uniforms	42,406,364	59,699,483
Vehicle licences and hire cost	30,878,583	39,059,999
Venue expenses	18,889,583	24,287,689
	<b>3,177,075,589</b>	<b>4,190,966,106</b>
<b>40. Cash generated from operations</b>		
Surplus	310,034,200	1,324,306,597
<b>Adjustments for:</b>		
Depreciation and amortisation	2,402,237,236	2,234,123,551
Impairment deficit	74,331,543	305,825,889
Debt impairment	2,524,365,481	1,464,826,053
Increase/ (Decrease) in retirement benefit	104,790,000	(248,403,482)
Increase in provisions	18,007,372	197,063,629
Other non-cash items	311,143,114	(412,323,235)
<b>Changes in working capital:</b>		
Inventories	(323,646,182)	(483,240,162)
Receivables from exchange transactions	(767,814,948)	(318,649,985)
Consumer debtors	(2,524,365,481)	(2,247,655,190)
Receivables from non-exchange transactions	113,503,344	(11,584,610)
Trade and other payables from exchange transactions	556,776,142	698,248,333
Unspent conditional grants and receipts	382,830,571	463,611,754
Increase in Consumer deposits	50,659,436	59,375,089
	<b>3,232,851,828</b>	<b>3,025,524,231</b>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 41. Contingencies

#### Contingent liabilities

Category A: Claims exceeding R 10 million.

Category B: All other claims

#### **CONTINGENT LIABILITIES**

Category A Claims:

The claim revolves around a dispute regarding payment for work done. CoE is defending the matter.	57,000,000	57,000,000
Plaintiff issued summons against CoE for the purchase of the remainder of ptn 9 of the farm driefontein no.87 which is illegally occupied. CoE is defending the matter.	-	17,825,900
Plaintiff was unsuccessful in a bid for security services and now is challenging the award to the successful bidder and they are claiming damages. CoE is defending the matter.	-	123,872,435
Applicant has instituted legal action non-compliance with SCM processes and the amendment of bid specifications. CoE is defending the matter.	26,000,000	-
Applicant has instituted legal action demanding compensation for land that he is unable to use due to an offramp passing through the land. CoE is defending the matter.	91,027,040	-
Claim in respect of services rendered. CoE is defending the matter.	-	37,000,000
Dispute regarding over-payment of a service provider. CoE is defending the matter.	23,653,137	23,653,137
The company is objecting to the tariff CoE charge for electricity. CoE is defending the matter.	89,000,000	-
	<b>286,680,177</b>	<b>259,351,472</b>

Category B Claims

Other various claims against the City. CoE is defending these matters.	27,442,829	35,005,628
	<b>27,442,829</b>	<b>35,005,628</b>

#### **CONTINGENT ASSETS**

CoE is claiming for non-payment of electricity consumed. CoE is pursuing the matter.	31,636,343	-
It was discovered that the company was overpricing the cost of maintenance on printing solutions. CoE is pursuing the matter.	22,253,145	-
Various claims issued by the City. CoE is pursuing these matters.	2,491,395	24,073,732
	<b>56,380,883</b>	<b>24,073,732</b>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 42. Related parties

Relationships  
Accounting officer  
Controlling entity  
Controlled entities

Dr. I Mashazi refer to Accounting Officer's report  
City of Ekurhuleni  
Brakpan Bus Company SOC Ltd (BBC) 7  
Ekurhuleni Development Agency (Dormant)  
East Rand Water Care Company NPC (ERWAT)  
Germiston Phase II Housing Company SOC Ltd (EHC)  
For details of members of key management, see note below  
and for remuneration refer note 29.

Close family member of key management  
Members of key management

### Related party balances

#### Amounts included in trade receivable and consumer debtors regarding related parties - municipal entities

East Rand Water Care Company, NPC	10,859,106	4,487,909
Brakpan Bus Company SOC Ltd	21,698,150	14,656,871
Germiston Phase II Housing Company SOC Ltd	258,065	-

#### Amounts included in trade payable regarding related parties - municipal entities

East Rand Water Care Company, NPC	37,395,295	77,947,430
Germiston Phase II Housing Company SOC Ltd	7,935,347	-
Brakpan Bus Company SOC Ltd	5,000,000	53,894

### Related party transactions

#### Sales to related parties - municipal entities

East Rand Water Care Company, NPC	86,854,861	70,544,098
Germiston Phase II Housing Company SOC Ltd	6,423,360	7,228,902
Brakpan Bus Company SOC Ltd	110,000	110,000

#### Purchases from related parties - municipal entities

East Rand Water Care Company, NPC	841,585,503	771,360,910
Brakpan Bus Company	-	9,605,627

#### Grants to related parties - municipal entities

Brakpan Bus Company SOC Ltd	5,000,000	-
Germiston Phase II Housing Company SOC Ltd T/A Ekurhuleni Housing Company	75,121,603	33,862,183
East Rand Water Care Company, NPC	68,164,478	50,000,000

#### Development contributions to related parties - municipal entities

East Rand Water Care Company, NPC	36,397,723	65,784,571
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Guarantees issued as required by the MFMA on behalf of municipal entities

COE guaranteed the Nedbank loan to ERWAT, with a carrying value of R447,970,486 (2018: R490,305,536). The guarantee shall expire at 15h00, 10 calendar days after the full repayment or settlement of all amounts owed by ERWAT to Nedbank Ltd in terms of the contract. ERWAT has agreed to cede to COE claims against its book debtors, in the event of ERWAT defaulting on its obligation in terms of the loan. ERWAT thereby cedes, assigns and transfers unto and in favour of COE all of ERWAT's rights, title and interest in and to all book debts, present and future, due and to become due to ERWAT, in the event that ERWAT defaults on its obligation in terms of the loan of R550 million advanced by Nedbank Ltd. This cession shall endure for so long as ERWAT is indebted to Nedbank Ltd, and the guarantee provided by COE in favour of Nedbank Ltd as guarantee for the loan remains in effect.

No contingent liability has been raised for this guarantee as the city believes that the entity is financially sound.

### 43. Comparative figures

Certain comparative figures have been reclassified as a result of the Municipal Standard Chart Of Accounts (mSCOA).

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 44. Risk management

#### Capital Risk Management

The City's objectives, when managing capital, are to safeguard the City's ability to continue as a going concern in order to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the City consists of debt, which includes the borrowings disclosed in note 15 and cash and cash equivalent disclosed in note 14.

Consistent with others in the industry, the City monitors capital on the basis of the gearing ratio.

There are no externally imposed capital requirements.

There have been no changes to what the City manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

The gearing ratio 2019 and 2018 respectively are as follow:

Other financial liabilities	(8,572,795,254)	(6,000,077,815)
Less: Cash and cash equivalent	3,430,881,905	3,527,793,794
Net Debt	(5,141,913,349)	(2,472,284,021)
Total equity	49,325,521,933	49,015,487,733
<b>Total capital</b>	<b>44,183,608,584</b>	<b>46,543,203,712</b>

#### Financial risk management

The City's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The City's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the City's financial performance.

Risk management is carried out by the risk management department under policies approved by the accounting officer. The City's treasury identifies, evaluates and hedges financial risks in close co-operation with the City's operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

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### 44. Risk management (continued)

#### Liquidity risk

The City's risk to liquidity is a result of the funds available to cover future commitments. The City manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analysis the City's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

#### Interest rate risk

The City's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the City to cash flow interest rate risk. Borrowings issued at fixed rates expose the City to fair value interest rate risk. The City's policy is to maintain approximately 100% of its borrowings in fixed rate instruments.

At year end, financial instruments exposed to interest rate risk is as follows:

#### Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to five years	Due after five years
Consumer debtors	10,5 %	6 815 465 283			
Long term receivables	variable %	204 835	409 670	2 714 710	
<b>Fair value interest rate risk</b>					
Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to five years	Due after five years
Long term and other liabilities	Various	448 592 208	1 615 000 000	1 599 809 545	4 909 393 500

#### Credit risk

Credit risk consists mainly of cash deposits, cash & cash equivalents, derivative financial instruments and trade debtors. The City only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis.

If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards.

Financial instrument	Controlling entity - 2019	Controlling entity - 2018
Other Investments	2,085,662,816	2,168,786,678
Receivables from exchange	5,754,272,908	4,899,878,902
Receivables from non exchange	66,109,708	62,252,027
Cash and cash equivalents	3,430,881,905	3,527,793,794
Listed and Unlisted shares	4,000,000	4,000,000
	<b>11,340,927,337</b>	<b>10,662,711,401</b>

The City has a R4,000,000 investment in unlisted shares, which is the exposure to price risk. The price risk on this investment cannot be determined due to the fact that the shares are not listed and therefore unknown.

### 45. Going concern

This annual financial statements have been prepared on a going concern basis.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 45. Going concern (continued)

Management has reviewed the City's cash flow forecast for the period ended 30 June 2019 and the next financial year budget is fully funded, in the light of this review and the current financial position, management is satisfied that the City has, or has access to, adequate resources to continue in operational existence for the foreseeable future.

### 46. Events after the reporting date

There were no subsequent events affecting this annual financial statements at the reporting date.

### 47. Unauthorised, Fruitless, Wasteful and Irregular expenditure

Items of unauthorised, irregular and fruitless and wasteful expenditure are referred to MPAC for further investigations and determination of appropriate steps to be taken. During the current year the Council approved R210,218,230 (2018: R10,173,528) for irregular expenditure and R2,025,957 (2018: R0) for fruitless expenditure for write-off. The remaining amounts are still under investigation by the MPAC and other organs of state. No resolutions were not yet available.

#### Irregular expenditure

Opening balance	1,515,117,725	1,250,709,115
Add: Expenditure identified for the year	-	222,716,222
Add: Expenditure identified in the current year, relating to prior years	7,433,362	51,866,048
Less: Amounts ratified/approved as irrecoverable by council and written off	(209,865,580)	(10,173,528)
Less: Amounts ratified/approved by council and recovered	(352,650)	-
	<b>1,312,332,857</b>	<b>1,515,117,857</b>

#### Fruitless and Wasteful expenditure

Opening balance	156,318,438	151,627,230
Add: Expenditure identified in the current year, relating to prior years	-	4,691,208
Less: Amounts ratified/approved as irrecoverable by council and written off	(1,401,986)	-
Less: Amounts ratified/approved by council and recovered	(623,971)	-
	<b>154,292,481</b>	<b>156,318,438</b>

#### June 2019

Unauthorised, Fruitless, Wasteful and Irregular Expenditure	Department	Description	Classification	Amount
June 2019 Identified in the current year relating to prior years:	Human Settlements	Contravention of SCM Policy	Irregular	1,117,153
	Human Settlements	Contravention of SCM Policy	Irregular	4,807,974
	ICT	Contravention of SCM Policy	Irregular	1,508,235
				<b>7,433,362</b>

#### June 2018

Unauthorised, Fruitless, Wasteful and Irregular Expenditure	Department	Description	Classification	Amount
June 2018 Unauthorised, Fruitless, Wasteful and Irregular Expenditure	ICT	Section 110: Telkom not classified as organ of State	Irregular	148,451,123
	Energy	Contravention of SCM Policy	Irregular,	6,463,530
	Transport	Contravention of SCM Policy	Irregular	511,182
	Human Resources	Contravention of SCM Policy	Irregular	79,750
	ICT	Contravention of SCM Policy	Irregular	8,667,683
	Real Estate	Contravention of SCM Policy	Irregular	78,146
	Various Departments	Contravention of SCM Regulation; Utilisation of functionality as per SCM	Irregular	38,232,814

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 47. Unauthorised, Fruitless, Wasteful and Irregular expenditure (continued)

Finance	Awards made to employees in service of the State	Irregular	129,192
EPMO	Contravention of SCM Policy	Irregular	19,169,587
Various Departments	Contravention of SCM Regulation; Use of panel	Irregular	881,915
Various Departments	Awards made to employees in service of the city	Irregular	51,300
			<b>222,716,222</b>

### June 2018

Identified in the current year relating to prior years:

Department	Description	Classification	Amount
Human Settlement	Contravention of SCM Policy	Irregular	23,392,353
Real Estate	Contravention of SCM Policy	Irregular	27,583,618
Communication s and brand management	Contravention of SCM Policy	Irregular	479,256
Transport, Planning	Contravention of SCM Policy	Irregular	379,000
Health & Social	Contravention of SCM Policy	Irregular	31,689
EMPD	Value for money not obtained	Fruitless	1,395,294
Waste management	Value for money not obtained	Fruitless	495,256
Economic Development	Value for money not obtained	Fruitless	157,303
Corporate and Legal	Value for money not obtained	Fruitless	6,692
Finance	Fraudulent transactions	Fruitless	623,972
CRM	Fraudulent transactions	Fruitless	2,012,823
			<b>56,557,256</b>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

### 48. Additional disclosure in terms of Municipal Finance Management Act

June 2019 awarded to family members	Tenders	No Contract number	Supplier name	Relation	Employee name	Employee designation	Amount
							R0,00
		1 A-DEMS 01/2018	Altech Alcom Matomo	Son	R Van Vuuren	Executive Manager	33,061,770
		2 A-WMS 05/2018	LMM Training and Development	Spouse	K Mangwane	Senior clerk	51,176,160
		3 A-RS 05/2018	Seletje Construction &Management CC	Spouse	P M Lekgwati	Senior clerk	3,048,260
		4 A-RE 09/2018	Siyaphambili	Spouse	M P Motai	Library assistant	12,000,000
		5 C-ICT 03/2019	IMQS Software	Son	W Valentin	Executive Manager	3,129,441
Subtotal		-	-	-	-	-	102,415,631
							102,415,631
June 2018 awarded to family members	Tenders	No Contract number	Supplier name	Relation	Employee name	Employee designation	Amount
							R0,00
		1 A-RE 06/2016	Bizzy Boys Trading Enterprise	Spouse	L P Khumalo	Chief clerck	3,719,232
		2 A-EE 02/2017	MPPM Consulting Engineers CC	Spouse	M Sentatsi	ICT Manager	1,833,333
		3 A-IA 01/2017	PWC	Son	W Valentin	Executive Manager	5,123,050
		4 P-CM 01/2016	Imbalenhle Catering and Projects	Spouse	L I Dlamini	EPWP Learnership	182,932
		5 P-CM 01/2016	MA-ZEE Marketing Enterprises	Mother	L G G Ngcakana	Internal audit officer	379,250
6 EFW-DEMS 17/2018	Seletje Construction & Management CC	Spouse	P M Lekgwati	Senior Clerck	32,251,602		
Subtotal		-	-	-	-	-	43,489,399
							43,489,399
June 2018 members of staff	Quotations awarded to family	No Supplier name	Relation	Employee name	Employee designation	Amount	
						R0,00	
		1 LMM Training and Development	Spouse	K Mangwane	Senior Clerck	32,000	
		2 Restery Trading PTY Ltd	Spouse	A Sihlangu	EDIC Coordinator	122,860	
		3 C R safety solutions	Spouse	S Rajoo	Clerck	29,694	
		4 ETN Trading Enterprise CC	Spouse	Z R Ndlovu	Clerck	51,129	
		5 NMVL Trading and Projects	Spouse	N M Mashele	Horticulturist	214,678	
		6 WJS MaintenancePty ltd	Spouse	A J Schoombe	Security Officer	89,790	
		7 CMIT Electrical Contractor CC	Spouse	P T Mhlongo	Profesional Nurse	391,307	
		8 Sebatatso Caterers	Spouse	M M Dhladhla	Security Guard	2,130,897	
		9 Mzozu Electrical Enterprise CC	Spouse	Z C Zungu	General Worker	1,954,410	
		10 Mjikijela Trading Enterprise CC	Spouse	S R Mthimkulu	General Worker	142,226	
		11 Mdibane Trading Enterprises	Spouse	C M Nolutshungu	Driver	34,150	
		12 Refiloe Khutso Catering and draping CC	Spouse	B F Zulu	Electrician	6,750	
		13 Moratwe-Monehela Trading CC	Spouse	M J Moghasi	Profesional Nurse	80,400	
		14 Lemmon Peel management CC	Spouse	S P Patterson	Constable	29,754	



# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

### 48. Additional disclosure in terms of Municipal Finance Management Act (continued)

15 Sizolwabo Trading and Projects Pty Ltd	Spouse	M J Kgatuke	Electrician	181,656
16 Akebono Industrial Supplies Pty Ltd	Spouse	J J Nortje	Clerck	86,785
				<b>5,578,486</b>

### Contributions to organised local government

Current year subscription / fee	13,585,000	12,825,000
Amount paid - current year	(13,585,000)	(12,825,000)
	-	-

### Material losses

Theft of top structure Angelo informal settlement	-	22,022,822
	-	-
	-	<b>22,022,822</b>

### Audit fees

Opening balance	6,153,851	5,564,302
Current year subscription / fee	25,000,000	24,771,358
Amount paid - current year	(22,416,621)	(24,181,809)
	<b>8,737,230</b>	<b>6,153,851</b>

### PAYE and UIF

Current year subscription / fee	1,349,217,405	1,146,642,709
Amount paid - current year	(1,349,217,405)	(1,146,642,709)
	-	-

### Pension and Medical Aid Deductions

Current year subscription / fee	2,111,735,465	1,974,320,182
Amount paid - current year	(2,111,735,465)	(1,974,320,182)
	-	-

## Notes to the Annual Financial Statements

### 48. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### VAT

VAT paid during the year	29,602,295	(6,403,494)
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#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days as at 30 June 2019.

30 June 2019	Highest outstanding amount	Aging in days
Shezi KE	28,585	1,170

During the year the following Councillors had arrears, where their accounts were outstanding for more than 90 days.

30 June 2019	Highest outstanding amount	Aging (in days)
Mabanga V	6,462	360
Mkhize A L	4,989	150
Shabalala E N	2,770	120
Mashigo A M	5,651	150
Hanong A L	2,608	120
Mashego R	3,098	120
Lotriet J C	1,602	120
Makopo T S	5,351	120
Shandu V K	1,721	120
Mnisi S L	1,825	180
Mvila S J	1,638	120
Sarila M F	2,014	270
Shezi K E	49,594	1,830
	<b>89,323</b>	<b>3,780</b>

  

30 June 2018	Highest outstanding amount	Aging (in days)
Chonco M F	27,551	1,200
Mafanga Z L	4,975	780
Ueckermann S	562	120
Makaleng P J	1,647	120
Bambeni T	1,306	120
Moloko J	847	150
Mabanga V	25,349	1,110
Nyathe K B	5,614	1,800
Phakathi N M	2,622	210
Matheba S T	4,161	150
Kodisang M N	3,837	150
Mahano F L	841	120
Mkhize A L	3,952	150
Nkosi P	3,580	120
Lukhele V K	1,953	120
Wondo M B	3,204	120
Chauke E V	2,064	120
Reid B	2,221	120
Mathonsi S	42,194	1,830
Sarila M F	3,526	240
Shezi K E	48,747	1,830
	<b>190,753</b>	<b>10,680</b>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

### 49. Utilisation of long-term liabilities reconciliation

Outstanding long-term liabilities beginning of the year	6,000,077,815	5,072,058,139
Redemption of loans	(420,172,767)	(433,174,086)
New loans	3,000,000,000	1,300,000,000
Interest accrued	75,286,639	61,193,762
	<u>8,655,191,687</u>	<u>6,000,077,815</u>
Used to finance property, plant and equipment: Opening balance	(4,700,077,815)	(5,072,058,139)
Redemption of loans	420,172,767	433,174,086
Capital financed from external loans for the year	(2,888,732,450)	-
Interest accrued	(75,286,639)	(61,193,762)
<b>Unspend long term liabilities</b>	<b><u>1,411,267,550</u></b>	<b><u>1,300,000,000</u></b>

Cash was invested for the repayment of long-term liabilities for the year	<u>1,899,477,077</u>	<u>1,617,372,812</u>
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Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sinking funds (investments) were established to ensure that long-term liabilities can be repaid on redemption date.

The new loan raised relates to capital expenditure re-financed in the previous financial year

### 50. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

#### The expenses incurred, as listed hereunder, have been approved/condoned

Emergencies	5,462,487	11,187,843
Sole supplier	40,240,866	-
Other - Impractical	1,113,937,630	149,429,671
	<u>1,159,640,983</u>	<u>160,617,514</u>

During the year the accounting officer ratified minor breaches in line with SCM regulation 36(2) R0,00 (2018:R0)

30 June 2019

Extensions of contracts include inter-alia the following amounts:

Other services - R16,364,108

30 June 2018

Extensions of contracts include inter-alia the following amounts:

Consultants - R7,131,045

Maintenance and other related services - R28,825,687

Security services - R71,787,437

Other services - R17,173,665

### 51. Unaccounted Electricity And Water

Electricity	30 June 2019 Units	30 June 2019 Value	30 June 2018 Units	30 June 2018 Value
Units purchased	10,689,059,923	9,907,950,273	10,647,195,913	9,212,421,577
Units sold	(9,411,717,262)	(8,723,950,215)	(9,403,041,901)	(8,135,924,877)
	<u>1,277,342,661</u>	<u>1,184,000,058</u>	<u>1,244,154,012</u>	<u>1,076,496,700</u>

#### Unaccounted electricity (Value)

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

### 51. Unaccounted Electricity And Water (continued)

Technical loss	630,654,536	584,569,066	627,930,596	543,313,133
Non-technical loss	646,688,125	599,430,992	616,223,416	533,183,567
	<b>1,277,342,661</b>	<b>1,184,000,058</b>	<b>1,244,154,012</b>	<b>1,076,496,700</b>

### Unaccounted electricity (%)

Technical loss	5.90 %	5.90 %	5.90 %	5.90 %
Non-technical loss	6.05 %	6.05 %	5.79 %	5.79 %
<b>Total loss %</b>	<b>11.95 %</b>	<b>11.95 %</b>	<b>11.69 %</b>	<b>11.69 %</b>

### Water

	30 June 2019	30 June 2019	30 June 2018	30 June 2018
	Units	Value	Units	Value
Opening balance	1,296,566	10,885,929	1,201,918	9,159,565
Purchases	355,142,737	3,345,996,430	349,769,470	2,934,764,481
Less: closing balance	(1,086,111)	(10,223,389)	(1,296,566)	(10,885,929)
Units sold	(248,983,167)	(2,344,653,335)	(250,259,297)	(2,099,675,505)
	<b>106,370,025</b>	<b>1,002,005,635</b>	<b>99,415,525</b>	<b>833,362,612</b>

### Unaccounted water (Value)

Technical loss	53,302,979	502,114,060	52,415,918	439,382,748
Non-technical loss	53,067,046	499,891,575	46,999,607	393,979,864
	<b>106,370,025</b>	<b>1,002,005,635</b>	<b>99,415,525</b>	<b>833,362,612</b>

### Unaccounted water (%)

Technical loss	15.00 %	15.00 %	15.00 %	15.00 %
Non-technical loss	14.93 %	14.93 %	13.45 %	13.45 %
	<b>29.93 %</b>	<b>29.93 %</b>	<b>28.45 %</b>	<b>28.45 %</b>

## Notes to the Annual Financial Statements

### 52. Commitments

#### Authorised capital expenditure

##### Already contracted for but not provided for

• Property, plant and equipment, Intangible assets and Other	4,694,555,762	3,835,348,858
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##### Not yet contracted for and authorised by accounting officer

• Other financial assets	2,545,371,335	2,933,359,863
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#### Total capital commitments

Already contracted for but not provided for	4,694,555,762	3,835,348,858
Not yet contracted for and authorised by accounting officer	2,545,371,335	2,933,359,863
	<b>7,239,927,097</b>	<b>6,768,708,721</b>

#### Total commitments

##### Total commitments

Authorised capital expenditure	7,239,927,097	6,768,708,721
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This committed expenditure relates to the acquisition of property, plant and equipment for the 2019/2020 financial year (Approved Capital Expenditure Programme) based on the projects values as approved by Council for the City's Capital Budget programme for the following year for which suppliers contracts are in place. These commitments will be financed by appropriated grants, internally generated funds (revenue or accumulated surplus), and other borrowings options where applicable.

Commitments not yet contracted for and authorised, relate to capital projects as approved by Council on the City Capital Budget which there is no contracts in place at the end of the financial year.

#### Operating leases - as lessee (expense)

##### Minimum lease payments due

- within one year	31,486,536	83,462
- in second to fifth year inclusive	542,786	-
	<b>32,029,322</b>	<b>83,462</b>

Operating lease payments represent rentals payable by the City for certain of its office buildings. Leases are negotiated for periods ranging from one year to five years, for office buildings. The rentals escalate on average at 8.00% (2018: 7.00%) for office buildings.

The actual lease contract amounts range between R6,000 and R642,118 (2018: R6,000 and R561,912) per month on the office buildings.

#### Operating leases - as lessor (income)

##### Minimum lease payments due

- within one year	7,910,246	6,424,991
- in second to fifth year inclusive	26,452,846	24,430,098
- later than five years	20,473,834	23,208,450
	<b>54,836,926</b>	<b>54,063,539</b>

Certain of the City's property generates lease rental income. The majority of these leases are on a month to month basis. Lease periods range from month-to-month up to 99 years. Monthly lease payments range from R0.08 (2018: R1) (social benefit) up to R280,000 (2018: R374,500).

## Notes to the Annual Financial Statements

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**53. Change in estimate****Property, plant and equipment****Economic entity**

Useful lives review for 2018/2019 had the following impact:

Depreciation expense before remaining useful lives review	R 30,094,663
Depreciation expense after remaining useful lives review	(R61,038,603)
Future increase in depreciation due to review	(R30,943,939)

**Discount rate**

The discount rate has changed from 10.68% (2018: 10.46%) to 10.68% (2018: 10.46%). The impact of this change has been disclosed in the relevant note, where applicable.

## Notes to the Annual Financial Statements

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### 54. Budget differences

#### 2019

##### **A. THE ADJUSTMENT BUDGETS PROCESS:**

The City of Ekurhuleni had two adjustment budgets during the 2018/19 financial year. The first adjustment budget was approved in a Council meeting held on the 21st February 2019 and the 2nd special adjustment budget was approved in a meeting held on the 02nd May 2019. Below are the summaries of the adjustments.

##### **First adjustment budget (21 February 2019)**

###### **Revenue**

Operating revenue increased by R197.0 million as a result of anticipated increase in energy sales of R135.0 million and assessment rates increase of R15.0 million; and  
Increase in national and provincial grants amounting to R321.4 million as per the mid-year gazette.

###### **Expenditure**

Employee costs: Reduction of R63.0 million due to vacancies not filled in the current financial year;  
Depreciation: Reduction of R100 million due to review of useful lives of assets;  
Finance charges: reduction of R170 million as loans will be taken in the last quarter;  
Materials and bulk purchases: Projected increase in energy bulk purchases amounting to R100 million and increase in repairs and maintenance of R345 million; and  
Other expenditure: Increase in various expenditure items such as ablution facilities, protective clothing and insurance costs which resulted in a net increase of R585 million.

###### **Capital budget**

Energy Efficiency Demand Management System Grant (EEDMS) - grant was reduced by R280 000 – this amount is being transferred to Opex as per grants conditions for capacity;  
Due to refinancing between external loans and the Urban Settlements Development Grant (USDG), the former was reduced by R175.4 million while the latter increased by the same amount;

###### **The following were adjustment in grants as per the Provincial and National gazettes:**

Neighborhood Development Partnership Grant (NDPG) - was reduced by R15.2 million;  
Urban Settlements Development Grant (USDG) - 2017/18 Approved roll over is R37,9 million on capex and refinancing of the ablution facilities in 2018/19 amounting to R219.7 million;  
An amount of R42,4 million was allocated to ERWAT on the Operating Budget;  
Human Settlements Development Grant (HSDG) - R450,9 million is the new allocation provided through an adjusted Provincial Gazette; and  
Public Transport Network Grant (PTNG) - R56.3 million was transferred from Capex to Opex as per grants conditions.

##### **Special second adjustment budget (2 May 2019)**

On the 22nd March 2019, an extra-ordinary Government Gazette No. 42318 dated 18 March 2019 was issued by National Treasury where the 2 grants Public Transport Network Grant (PTNG) and Urban Settlements Development Grant (USDG) 2018/19 allocation were reduced. A Council meeting was held on the 2nd May 2019 to approve the special adjustment. The impact was only on the Capital Budget.

###### **Capital Budget**

Revenue allocation as per the DoRA Extra Ordinary Gazette No 42318 resulted in reduction of the following:

USDG – R130.3 million;  
PTNG - R 20.0 million; and  
HSDG - R55.4 million.

##### **B. THE FOLLOWING REASONS ARE FOR VIREMENTS PROCESSED POST THE FINAL ADJUSTMENT BUDGET**

###### **Expenditure**

Employee related costs increased due to increased allocation in learnership stipend, the re-classification of expenditure items between general expenses and employee cost to the value of R12 million. This programme is approved by LGSETA for implementation by the City;

Transfers and grants increased by R4.2 million as additional funds were required for the burial of indigents paupers

## Notes to the Annual Financial Statements

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### 54. Budget differences (continued)

and external bursaries resulting from the misalignment of academic year and the City's financial year; and

As a result of the two expenditure item above, General expenditure item resulted in a reduction of R16, 2 million approved in terms of Virement Policy.

### C. EXPLANATION OF VARIANCES: FINAL BUDGET AND ACTUAL AMOUNTS

#### Revenue

The total revenue for the year, excluding capital transfers and contributions, is 5% less than the budgeted revenue. The actual revenue amounts to R34 billion whilst the budgeted revenue amounts to R35.8 billion, with the negative variance of R1.8 billion.

The contributing factors to the negative deviation are as follows:

#### Transfers recognised - operational

The underperformance on operational grants was due to the following factors:

Contractors' poor performance for which the City has taken appropriate action;  
Delays in the issuing work permits per the OHS Legislation;  
Community unrests resulting in operational projects delays; and  
Constant delays in removal of shacks illegally constructed on the BRT routes.  
Other own revenue

The variance is as a result of under recovery on various revenue sources such as:

Interest on trade debtors – directly linked to the trade debtors balance that has reduced from R16 billion in prior year to R14 billion as a result of bad debt written off.

Sundry income – R270 million budgeted to be appropriated is not recognized as revenue as the matter is still under discussion with National Treasury and National Department of Human Settlements.

#### Expenditure

The total expenditure for the year is R843 million less than the budgeted expenditure. The actual expenditure amounts to R35.0 million whilst the budgeted expenditure was R35.8 billion.

The following major expenditure items are analyzed:

#### i Remuneration of Councillors

Councillors remuneration package was increased by 4% in terms of the Remuneration of Public Bearers Act of 2019 as compared to the budgeted increase of 7%. This resulted in negative variance of 8.7%.

#### i Debt impairment

Final calculation for debt impairment was based on the actual consumer debt and determined as per provision for Bad debt policy.

#### Finance cost

Finance cost is budgeted according to all the existing loans of City plus the interest payable on new loans obtained during the financial year.

#### i Transfers and grants

The under performance is due to the following factors

The free basic electricity grant paid to Eskom was less than budgeted due to Eskom review of its indigent register; The subsidy/ grant paid by the City to the taxi operators as part of the Integrated Rapid Public Transport Network was not fully paid as the programme is not yet fully operational; and Excess consumption of water by indigent households is lower than budget due to constant review of indigent registration.

#### Other expenditure

Negative deviation is as a result of several expenditure items within the category. The main contributors are



## Notes to the Annual Financial Statements

### 54. Budget differences (continued)

the cost containment measures implemented on general expenses.

### 55. Prior period errors

#### 2018

Property plant and equipment, investment property, projects completed prior years were only capitalised in the current year as projects close out reports were provided the current year, and certain projects were derecognised as they did not meet the subsequent capitalisation requirements.

Other assets were reclassified between the asset categories as they either categorised incorrectly between the various types, were found or removed from the relating registers.

Other property, plant and equipment and other property, plant and equipment: buildings, were previously shown as one line item, due to significant amounts in other property, plant and equipment, management deemed it fit to separate the line items.

Other investments - There was an error on the investment shedule used for the accrual of interest income'.

Irregular expenditure were reported at the contract values instead of the amount paid for the year.

Deviations, contract extention were incorrectly included in the deviation schedule

The correction of the errors results in adjustments as follows (identified in 2018):

#### Statement of Financial Position

Investment property	12,366,373	-
Property, plant and equipment	(37,071,469)	-
Intangible assets	(122,219,991)	-
Heritage assets	(7,190,326)	-
Trade and other payables	131,614,057	-
Opening accumulated surplus (Opening balance 01/07/2017)	(22,501,356)	-

#### Statement of Financial Performance

Public contributions and donations	(2,940,140)	-
Impairment	134,133,544	-
Community	-	-

Figures in Rand	Note(s)	2019	2018
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# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2019